

The Soviet Crisis

Gorbachev and the Perils of *Perestroika*



1. NIE 11-23-88, December 1988, *Gorbachev's Economic Programs: The Challenges Ahead*



Director of
Central
Intelligence

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Gorbachev's Economic Programs: The Challenges Ahead

National Intelligence Estimate

*This National Intelligence Estimate represents
the views of the Director of Central Intelligence
with the advice and assistance of the
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Gorbachev's Economic Programs: The Challenges Ahead (U)

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The Defense Intelligence Agency
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Key Judgments

We believe that Gorbachev's efforts at reviving the Soviet economy will produce no substantial improvement over the next five years, although his efforts to raise consumer welfare could achieve some modest results. Soviet attempts to raise technology levels will not narrow the gap with the West in most sectors during the remainder of this century.¹ ~~(C/NF)~~

Gorbachev's economic program has so far failed consumers, who, according to anecdotal evidence, probably feel somewhat worse off now than they did when Gorbachev assumed power in 1985. To improve consumer welfare, Gorbachev has begun to place more emphasis on housing, food processing, and light industry; and the defense industry is being told to increase its production for consumers. Gorbachev has also sought to expand the private and cooperative sectors through long-term leasing arrangements in both agriculture and industry. These initiatives are the ones that are most likely to improve the quality of life in the Soviet Union over the next five years. ~~(C/NF)~~

Gorbachev's effort to reform the country's system of planning and management and to improve the country's capital stock is going poorly. Ill-defined reform legislation, interference by ministries, and piecemeal implementation are creating disruptions and preventing progress. Reforms already planned in the state sector will probably be implemented slowly. Sharp moves toward a market economy would be very disruptive and would jeopardize popular support for his programs. Nevertheless, Gorbachev has often dealt with setbacks by adopting radical measures, and we cannot rule out an effort to move rapidly toward a market economy in the state sector. ~~(C/NF)~~

To promote growth of private enterprise, Moscow must allow more flexibility and reliance on the market for leasing and cooperative arrangements in order to increase significantly the production of goods and services for consumers. A resentful public and skeptical bureaucracy will make this difficult. Lease contracting in agriculture will remain bound by centrally directed procurement targets, reliance on state supplies, and a

¹ The Director, Defense Intelligence Agency, believes that this uneven performance could include sufficient improvement in the Soviets' economic and technical base to facilitate fulfillment of future military requirements. Moreover, since the Soviets already lead in several key defense technologies, they should be able to continue assimilating technology gains in this sector. ~~(C/NF)~~

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recalcitrant bureaucracy. The comparatively high prices of privately supplied goods will spur inflation. An added problem for Moscow is that these reforms probably will be most successful, at least initially, in non-Russian areas such as the Baltic states and the Caucasus. ~~(C-NT)~~

We do not foresee a large, sustained increase in Soviet imports from the West. The Soviets may increase borrowing to perhaps \$3-4 billion net per year over the next few years. Even a much larger surge in borrowing from the West, which we think is unlikely, would not aid the overall economy substantially or ameliorate the resource competition between the military and civilian sectors. A few industries may benefit, however. ~~(C-NT)~~

We judge Gorbachev will divert additional resources from defense—including managers, equipment designers, investment funds, and plant capacity—to his civilian programs. While we recognize there is some redundant defense plant capacity, significant increases in the production of goods for the civilian sector would require a diversion of resources from the military. Diversion from defense to civilian objectives will escalate conflicts over resource allocation because it could delay upgrades to weapons plants, thereby postponing the introduction of new systems. Clearly there are strong economic pressures for major reductions in military spending. Striking the right balance will involve many leadership arguments and decisions over the entire period of this Estimate. In any case, the large-scale modernization of Soviet defense industries in the 1970s has already put in place most of the equipment needed to produce weapon systems scheduled for deployment through the early 1990s. ²~~(C-NT)~~

Moscow will press harder on Eastern Europe for more and higher quality machinery and consumer goods, for greater participation in joint projects, and for greater contributions to Warsaw Pact defense. Such demands will produce only marginal benefits for the USSR because of real economic constraints in Eastern Europe and the reluctance of its regimes to increase their help to the Soviets. ~~(C-NT)~~

There is some chance that Gorbachev's economic programs may not survive. Disruptions, such as widespread reform-related work stoppages or a drastic drop in performance indicators, might strengthen conservative opposition. Such trends, coupled with continuing nationality turmoil, could force the leadership into a major retreat. ~~(C-NT)~~

² *The Director, Defense Intelligence Agency, holds an alternative view that a critical distinction must be made between near-term resource allocation trade-offs that can be made without significantly disrupting current defense procurement, and those of the longer term where a downward turn in defense spending trends may result in reordering or stretching out of weapons procurement.* ~~(S-NT)~~

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Given the severity of Soviet economic problems, Gorbachev needs the many benefits of a nonconfrontational international environment. This gives the United States and its allies considerable leverage in bargaining with the Soviets over the terms of that environment on some security issues such as regional conflicts and arms control and on some internal matters such as human rights and information exchange. The margins of this leverage will be set by Moscow's determination not to let the West affect the fundamental nature of the Soviet system or its superpower status.³

~~(C/NF)~~

³ For a fuller discussion of these issues, see SNIE 11-16-88, *Soviet Policy During the Next Phase of Arms Control in Europe*, November 1988; NIE 11-3/8-88, *Soviet Forces and Capabilities for Strategic Nuclear Conflict Through the Late 1990s (Volume I)*, December 1988; and the forthcoming Estimates NIE 11-14-88, *Trends and Developments in Warsaw Pact Theater Forces and Doctrine, 1988-2007*; and NIE 11-4-89, *Soviet Strategy Toward the West: The Gorbachev Challenge*. ~~(C/NF)~~

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Discussion

The Need for Change

A simple growth formula—ever increasing inputs of labor and capital—resulted in rapid economic gains for the Soviet Union in the postwar era. This postwar system placed heavy stress on quantity rather than quality. Because there was an abundance of low-cost, readily available resources, there was little concern for efficiency and productivity. As the USSR moved out of the reconstruction phase in the 1960s, this growth formula became less effective. Labor supply growth slowed, ever larger expenditures were required to exploit natural resources, and the inefficiencies inherent in central planning became more acute as the economy grew. (C-NT)

Military spending also has increasingly hindered economic performance. To support the military effort, Moscow created an institutional mechanism reaching from the highest state bodies down through layers of administrative control to individual enterprises, thus ensuring priority to defense programs. As a result of this priority, the defense sector's share of national output grew and by the mid-1980s consumed 15 to 17 percent of GNP. The incentive structure—wages, bonuses, perquisites—was designed to favor those who worked in or supported the defense industry. The defense sector was given priority access to raw materials, machinery and equipment, subcomponents, scientists, engineers, and skilled workers, preempting consumption and investment in the civilian sector. The

* General Secretary Gorbachev's efforts at reforming the political and economic fabric of the Soviet Union have been under way for more than three years. This Estimate reviews the progress of his economic strategy, identifies the conflicts inherent in his approach, and assesses the outlook for reform over the next five years. The Soviet leader has set in motion a dynamic process whose outcome cannot be predicted with confidence. There will continue to be major alterations in the game plan, and a conservative reaction to the strains unleashed by the current effort is possible. What is clear is that the very fabric of Soviet ideology and institutions is being questioned more than at any time since the revolution, and in the Soviet Union there is a general consensus that retreating to the economic and political path existing when Gorbachev took over is not tenable. (C-NT)

Soviet defense industry became the most technologically advanced and most effective sector of the economy. This effectiveness was due primarily to the priority that created the institutional mechanism rather than greater efficiency. The defense industry has been at least as inefficient and wasteful as the civilian sector. (C-NT)

As a result of these factors, GNP growth slowed from rates that were closing the economic and technological gaps with the developed West during the 1950s and 1960s to a range in the 1980s that allowed little expansion of per capita output and stymied progress in narrowing the technology gap. The large and still growing burden of defense coupled with increasing demands for investment in areas such as energy and agriculture allowed no room for major increases in the quantity and quality of consumer goods and services. (C-NT)

Brezhnev's successors, then, were saddled with:

- An antiquated industrial base and a defense sector that was siphoning off high-quality resources needed for economic improvement.
- An energy sector beset by rapidly rising production costs of oil, its major fuel.
- Levels of technology that, for most areas, substantially lagged those of the West.
- Inefficiencies inherent in the conflict between ever more central planning and control and an increasingly large and complex economy.
- An inefficient farm sector that, despite large investments, still employed 20 percent of the Soviet labor force compared with only 5 percent in the United States.

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Figure 1
USSR: Low Living Standards

Soviet consumption as a percentage of US consumption, 1983

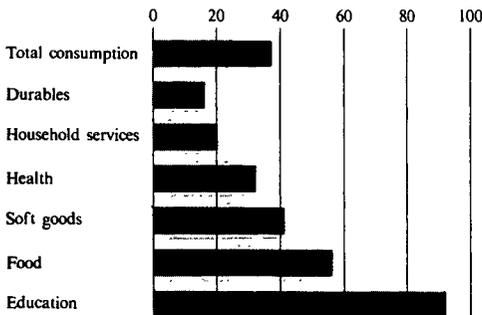
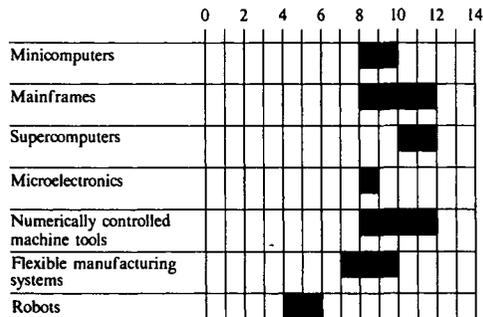


Figure 2
USSR: Lags in Key Technologies

Approximate length of US lead in years



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- A hidebound, corrupt bureaucracy and inflexible planning system that failed to provide the proper signals for production and investment, retarded scientific-technical innovation, and encouraged high costs and massive waste of resources. (C/NP)

A Bold Action Plan

Gorbachev recognized the "pre-crisis" urgency of these problems and initiated a bold strategy to deal with them. He grouped his efforts to revive the economy under the broad rubric of *perestroyka*, a term that includes three major economic elements—tighter *economic discipline*, *industrial modernization*, and *economic reform*. The goal of these actions, we believe, is to develop an economic environment capable of:

- At least containing, if not narrowing, the growing gaps in technology and economic performance with the West, thereby also enabling Moscow to maintain its military competitiveness.

- Achieving major improvements in consumer welfare to gain the cooperation and support of the masses for *perestroyka* and to maintain regime legitimacy. Gorbachev and other Soviet leaders recognize that reaching these economic goals will take years, possibly decades, and that progress toward them could be greatly facilitated by a more nonconfrontational international environment. Gorbachev's efforts in arms control, his political initiatives, and the campaign to refurbish the USSR's image are intended to achieve such an environment. (C/NP)

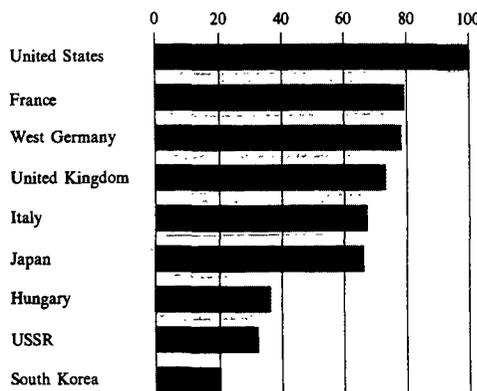
When Gorbachev first assumed office, he concentrated on extending and intensifying Andropov's *discipline* campaign. His "human factors" initiatives—discipline, temperance, and improved work incentives—were intended to raise labor productivity and to increase economic growth for the first two or three years of the 1986-90 Five-Year Plan while industry retooled. He also removed many inept and corrupt managers and officials and attempted to rationalize

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Figure 3
USSR: Per Capita Consumption in a
Global Perspective, 1985

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the organizational structure of the bureaucracy by trimming slots and rearranging and combining functions. (C-~~NF~~)

Gorbachev argued that *industrial modernization* was the key to long-lasting improvement of the USSR's economic situation. His program was aimed at the massive introduction of new machinery and the rapid retirement of old equipment. This depended heavily on major improvements in the machine-building and metalworking sector that manufactures producer and consumer durables and military hardware. (See inset, "Machine Building—The Focus of Gorbachev's Modernization Plans.") (C-~~NF~~)

Gorbachev's boldest proposals were focused on *economic reform* of planning and management. These changes—contained in the Basic Provisions for Fundamentally Reorganizing Economic Management, the

Law on the State Enterprise, and 11 decrees—were approved at the Central Committee plenum in June 1987. This set of documents, together with decrees adopted over the last three years that expanded the role of the private sector, represents a design for the most comprehensive reform of economic management in the Soviet Union since the introduction of Stalinist central planning in the late 1920s. The plan goes well beyond the "Kosygin" reforms adopted in 1965 (see annex A). The reform package is scheduled to be "almost fully" in place by the beginning of 1991—the first year of the 13th Five-Year Plan—and major parts of the package are already in effect. (See the table on pages 5 and 6.) (C-~~NF~~)

Clearing the Political Track

Gorbachev also proposed reforms of the political system in part because of the ability of the entrenched state and party bureaucracies to defeat past efforts at economic reform. He aims to decentralize the political system to circumvent the resistance to reform at the top and middle levels of the leadership—groups that have forced him to compromise and slow implementation of his programs. The reforms place more decisionmaking authority at the local level in hopes of making the system more responsive to local economic signals than to administrative dictates from the top. His program for "democratization" is designed to produce a more participatory political culture—encouraging local officials to take initiative to resolve problems and giving the populace a greater say in decisions. (C-~~NF~~)

At Gorbachev's initiative, measures were approved by the national party conference in June 1988 to reduce the size of the party apparatus, force local party chiefs to stand for election as head of the regional soviets, and give the soviets new authority. These measures aim at diminishing the ability of local party chiefs to block controversial reforms and sensitizing local leaders to popular sentiment on such economic issues as more and better food and consumer goods. *Glasnost*—an element of political reform in the broadest

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Machine Building—The Focus of Gorbachev's Modernization Plans

Gorbachev has argued that the key to long-lasting improvement of the USSR's economic situation is the continuous introduction of increasingly productive machinery and equipment. The modernization program, therefore, depends heavily on improvements in machine building and metalworking—the sector that produces these producer durables, as well as consumer durables and military hardware. The ambitious targets of the 1986-90 plan reflect the sector's importance:

- Output is to increase by 43 percent during the period 1986-90.
- Targets for high-technology equipment are even higher. Planned growth rates are especially high for numerically controlled machine tools (125 percent), robots (225 percent), and processing centers (330 percent).
- Quality and technological levels are to improve dramatically. By 1990, 85 to 90 percent of the most important types of machinery output will be up to "world technical levels," compared with 13 to 15 percent for civilian machinery in 1986. New machinery is to be at least 50 to 100 percent more productive and reliable than previously produced equipment.
- New machinery is to be introduced more quickly than in the past—by 1990, 13 percent of machine-building output is to be in its first year of production, up from 3 percent in 1985.
- By 1990, 60 percent of the sector's own machinery is to be new—that is, brought on line during the preceding five years. To reach this goal, investment in civil machine-building ministries is

to rise by 80 percent. Meanwhile, the withdrawal rate for old capital goods is to double by 1990, while the withdrawal rate for machinery is to quadruple. ~~(S/NF)~~

Machine building's struggle to meet these goals was hindered, in part, by the quality control program and new financial arrangements introduced in 1987:

- Production of numerically controlled machine tools showed no growth in 1987, and production of industrial robots declined.
- While newly introduced machines represent about 9 percent of output, the Soviets admit to a general lack of progress in meeting "world standards."
- The pace of both investment and machinery retirements has slowed markedly from the plan guidelines. ~~(S/NF)~~

Though machine builders will not reach their 12th Five-Year Plan targets, the leadership has taken steps to revitalize modernization by refocusing resources on priority areas including machinery for consumers, the food program, transportation, and construction. At the same time, the plan calls for an intensification of the development of machine tool building, instrument building, electronics, and electrical equipment—the same industries targeted for preferential development in the original 12th Five-Year Plan goals. ~~(S/NF)~~

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Soviet Economic Reform: A Status Report

Reform	Major Purpose	1989 Goals	1988 Results	Final Objective
Enterprise self-financing	Enterprises will bear full economic responsibility for the results of their activity. Investment will be financed less through budget allocations and more through enterprise's own resources and bank credits.	100 percent of industry and agriculture; "hope" to complete changeover of nonproduction sphere to same principles.	60 percent of volume of output in the economy.	Same as 1989 goals.
Regional/local self-financing	Republics and local governments will have greater role in forming their own budgets and will be expected to balance revenues and expenditures. Revenues will be formed from taxes levied on enterprises within the region or locale to fund social/economic development.	Estonia, Latvia, Lithuania, Belorussia, Moscow City, Tatar ASSR, and Sverdlovsk Oblast (RSFSR).	Not yet introduced.	Expansion to unnamed regions.
Planning	Enterprises will produce a portion of their output in compliance with mandatory state orders and will be given greater latitude in determining the remainder.	All enterprises and associations. State orders are to make up an estimated 40 percent of industrial production.	State orders made up 86 percent of industrial production.	State orders are to "eventually" drop to 20 to 25 percent of total production.
Supply	Only "scarce" producer goods and supplies for state orders will continue to be rationed by the state. Other supplies will be distributed through a wholesale trade system that will allow free purchase and sale under direct contracts between providers and users.	Approximately 10 percent of total industrial production; 50 to 55 percent of sales through state supply networks. ^a	Over 4 percent of total industrial production operated under wholesale trade.	Wholesale trade reform to cover more than 70 percent of sales through state supply networks by 1992. ^b
Wages	Entire wage and salary structure in the production sector will be overhauled, but increases are dependent upon enterprise's ability to finance them and are tied to increases in labor production.	No announced goal. 1988 goal was 60 to 70 percent of the work force. (May not be expanded because of concern that wages are being increased more than increases in labor productivity.)	No information.	All industrial sectors by end of 1990.
Banking	Decentralizes bank decisionmaking somewhat and elevates the role of economic criteria in extending credit.	Codification of banking practice through new banking legislation.	Limited decentralization. Some flexibility in negotiating lending rates. Assumed role of liquidators in cases of insolvency.	After price reforms are implemented.
Foreign trade	Allows selected enterprises to engage directly in foreign trade and keep portion of foreign currency earned.	Unannounced.	Was to be 26 percent of all imports and 14 percent of all exports. (Implementation behind schedule.)	No date given.

Footnotes appear at end of table.

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Soviet Economic Reform: A Status Report (continued)

Reform	Major Purpose	1989 Goals	1988 Results	Final Objective
Wholesale prices	Will be revised to better reflect resource scarcity and customer demands and will be based on contracts.	Not scheduled to be implemented.	Not scheduled to be implemented.	Industry, transportation, and communications by 1 January 1990; construction and agriculture by 1 January 1991.
Retail prices	Will be made more flexible and more fully reflective of supply and demand, probably resulting in higher prices for food, rent, and consumer services.	None; to begin only after full public discussion and before 1991 (beginning of 13th Five-Year Plan).	Not scheduled to be implemented.	Whole economy, presumably including retail by 1991.

^a This goal was moved up to 1989 from 1990. In 1987, the stated 1989 goal was to be 30 percent of sales through state supply networks operating on wholesale trade.

^b This goal was slightly reduced. In 1987, the stated 1992 objective was for wholesale trade to cover 80 percent of sales through state supply networks.

~~This table is Confidential Reform.~~

sense—encourages the critical reexamination of economic history and the Stalinist system's ideological foundations and provides a new set of precepts that support the devolution of economic and political power. (See inset, "Challenging Accepted Norms.") (C NF)

Slow Progress

Implementation of Gorbachev's program is off to a rocky start. This is particularly true of his attempts to reform the system of planning and management. Ministries have not clearly apprised enterprise managers of their new tasks and responsibilities. Detailed instructions have not been issued, nor have chains of command in new organizations been delineated clearly. Enterprise managers remain reluctant to take risks and to focus on quality and innovation because pressure remains to meet quantitative targets set in the extremely ambitious original five-year plan. (C NF)

Loopholes in the reform legislation—the result of compromise between those who wanted a radical decentralization of economic decision making immediately and those who preferred a more traditional, cautious approach—have allowed the ministries and the planning bureaucracy to resist change and have postponed the advent of market forces:

- For example, although obligatory plan targets covering an enterprise's entire range of output have been replaced by a system of "nonbinding" control figures and mandatory state orders, during the first year of implementation, state orders levied by Gosplan and the ministries often took all of an enterprise's output. In an effort to solve this problem, ministries are prohibited from issuing state orders during 1989, and Gosplan is instructed to reduce state orders by one-half to two-thirds.

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Challenging Accepted Norms	
Initiatives	Conflicts
<i>Initiatives to make enterprises more financially independent would inevitably result in the bankruptcy of inefficient firms.</i>	<i>This creates major uncertainties for workers, who face unemployment and/or retraining, and for the manager, a member of the privileged elite, who has typically spent his entire career at the same plant.</i>
<i>Wage reform would tie rewards more closely to individual production results and would give greater rewards to professionals and skilled workers.</i>	<i>This eliminates wage leveling and creates pressures to fire redundant workers, thus conflicting with the social contract.</i>
<i>Retail price reform would reduce government subsidies and bring supply and demand more into line.</i>	<i>While needed ultimately for long-term reform, it would weaken the safety net that gives the poorest segment of the population assured access to necessities such as food, housing, and health care.</i>
<i>Wholesale price reform would allow prices to reflect changes in resource scarcities and consumer demand.</i>	<i>It would allow the market more influence over Soviet economic activity, increasing the potential for its reputed evils—inflation, unemployment, “unearned” profits, and cyclical fluctuations.</i>
<i>Expansion of the private sector to increase the availability of consumer goods and services would unleash private initiative.</i>	<i>It encourages qualities previously eschewed in the making of the “new Soviet man”—self-interest, competition, and “money-grubbing”—while it chips away at state ownership of the means of production.</i>
<i>Workplace democratization would allow the workers to elect their managers and workers councils, giving them a greater stake in the collective’s success.</i>	<i>Democratization violates the Lenin-ordained principle of one-man plant management and gives the workers a greater potential to challenge the role of the party in the economy.</i>
<i>The cooperative movement in agriculture would give the farmer a personal interest in using the land more efficiently by allowing him to contract with the farm and to pocket the profits.</i>	<i>It appears to be at variance with the raison d’etre for collectivization—the submergence of the individual to the group and a mechanism to transfer dividends from agriculture to other sectors.</i>

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- Under the new conditions of "self-financing," enterprises are to finance operating expenses and some capital expenditures out of their own revenues and bear the full economic responsibility for their actions. However, the amount of revenues they are permitted to keep and the distribution of these resources among investment and incentive funds remain under the control of the ministries. As a result, the ministries are able to juggle these accounts and use the earnings of profitable enterprises to bail out the unprofitable ones.

In the area of foreign trade, a "stage-by-stage" convertibility of the ruble is planned, starting with the currencies of the countries belonging to the Council for Mutual Economic Assistance. Enterprises also are being given broader rights to keep part of the foreign exchange earned from exports. However, they still need approval to participate directly in foreign economic activity, and Soviet economists admit that currency convertibility, even with the currencies of Eastern Europe, is far off. ~~(C NR)~~

Finally, implementation of Gorbachev's program is slow because only a portion of the economy has changed to the new system, and crucial elements of the reform package are not scheduled for full implementation until the beginning of the 13th Five-Year Plan in 1991. Wholesale and retail price reform is essential to make other reforms work, such as self-financing and making the ruble more convertible into both domestic goods and foreign currencies at realistic rates. Yet, wholesale price reform in the state sector will not be completed until 1991 and is likely to consist of administrative revisions rather than changes in the way prices are determined. Retail price reform has been postponed indefinitely because the regime fears that it will corrode the support of the populace for *perestroika*. Substantial new flexibility in setting prices, as reformers originally intended, is not likely because the Soviets have seen that granting limited enterprise rights to set prices has been inflationary under monopolistic conditions. (See inset, "Backtracking on Reform.") ~~(C NR)~~

The modernization program has also been lagging and seems to be getting a reduced level of attention. In 1987 there was no increase in the output of machinery for the civilian sector, and the resulting shortfalls in

Backtracking on Reform

Some economic reforms, particularly those that would negatively affect the consumer, have been delayed or modified:

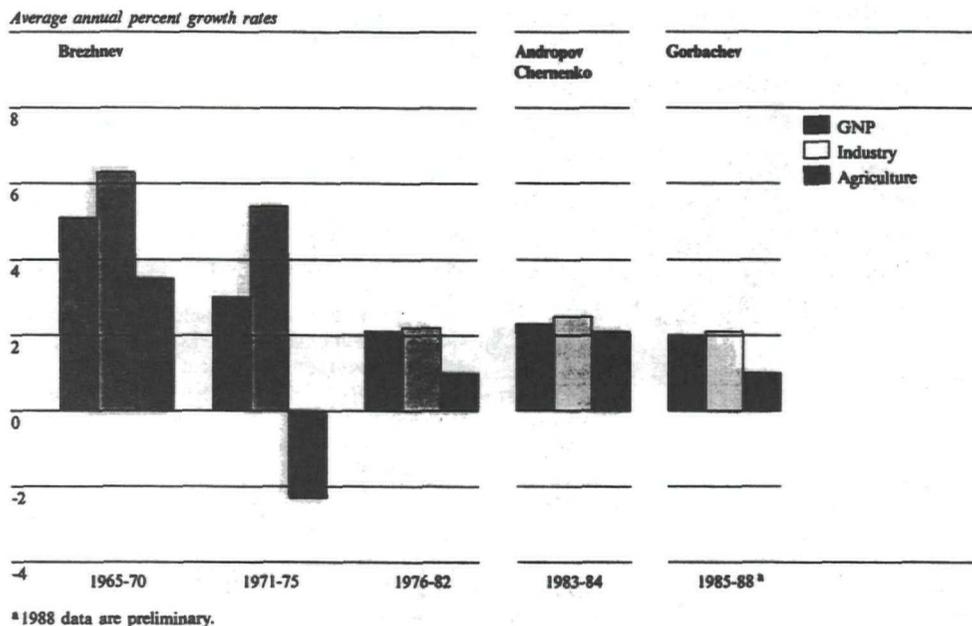
- *Retail price reform, which was to be implemented in 1991 along with wholesale price reform, has been pushed into the indefinite future; even reform economists are expressing skepticism about its wisdom.*
- *Consumer goods remain tied to state orders in order to ensure that unprofitable goods will be produced; state orders have been reduced substantially in other sectors.*
- *A new set of price regulations on goods and services produced in the cooperative sector are in response to public complaints of price gouging.*
- *Decisions on wage increases, which were to be the preserve of the enterprise, now are monitored by Gosbank in order to ensure that they do not exceed productivity gains and add to inflationary pressures.*
- *Wholesale price reform that will be implemented beginning in 1990 is not the reform of the price mechanism itself as envisioned in the original reform decree, but another revision that will periodically need adjusting.* ~~(C NR)~~

equipment for investment caused problems throughout industry and the rest of the economy. The high targets that machine builders were tasked to achieve were overwhelming, particularly in light of the fact that they were being forced to do everything at once: retool, increase quality, conserve resources, change the product mix, and accelerate production. Despite some performance improvement in 1988, the program remains well below target. ~~(C NR)~~

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Figure 4
USSR: Economic Performance Under Gorbachev and His Predecessors



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Gorbachev's economic program has so far failed consumers. Economic performance during 1985-88 was about the same as in 1976-82—the most stagnant Brezhnev years when per capita income did not grow. The effects of this poor performance—coupled with reduced imports of consumer goods and the antialcohol campaign—mean that Soviet consumers probably felt somewhat worse off at the end of 1987 than they did in early 1985 when Gorbachev assumed the post of General Secretary. The Soviet consumer scene is still marked by lengthy queues, rationing of some goods, pervasive black-market activity, and shortages of basic necessities, especially food. (C-~~TOP~~)

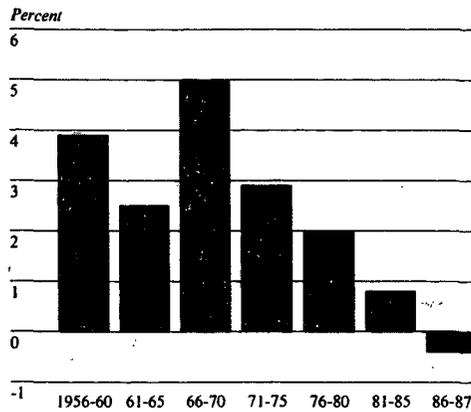
Altering Economic Strategy

Because of these mounting problems, Gorbachev has begun to alter his strategy in an attempt to revitalize his economic program and prepare for the planning decisions for the next five-year plan (1991-95). The potential problems from disgruntled consumers forced Gorbachev to alter his investment strategy to place more emphasis on housing, food processing, and light industry and to restrict growth in some other sectors. The Soviets have directed the machine-building industry to give priority to sectors that directly serve the consumer. (C-~~TOP~~)

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Figure 5
USSR: Average Annual Growth of
Per Capita Consumption, 1956-87



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The defense industry is also being told to assume responsibility for a greater share of consumer-related production:

- Premier Ryzhkov directed the defense industry to increase deliveries of equipment to the food-processing sector.
- The Ministry of Machine Building for Light and Foods Industry and Household Appliances was disbanded and most plants resubordinated to the defense industry.
- The 1989 plan calls on the defense industry to improve the quality and increase production of consumer goods and capital equipment for consumer-related industries.
- The Minister of Medium Machine Building (the most secretive defense-industrial ministry) announced plans to increase sharply the output of equipment for the dairy industry. ~~(C-NT)~~

Gorbachev is increasingly concentrating on expanding the private and cooperative sectors and offering long-term leasing arrangements in both agriculture and

industry because those initiatives hold the best prospects for producing considerable improvements in the quality of life over the next five years. Legislation that would have levied a prohibitive tax structure on cooperatives was remanded in July by the Supreme Soviet in an unprecedented move. ~~(C-NT)~~

Outlook

We believe that Gorbachev's efforts at reforming the economy, fostering capital renewal, and motivating labor and management will produce no substantial improvement in the Soviet economy over the next five years.³ His efforts to devote increasing resources and attention to improving consumer welfare, however, could achieve some modest results. Still, we believe Gorbachev will be disappointed with the overall consequences. Squeezing investment growth in nonconsumer sectors, including heavy industry, will jeopardize prospects for meeting vital production targets. This same strategy resulted in serious bottlenecks and a substantial slippage in industrial growth during the period 1976-80. Plans to increase investment in light industry and to buy Western manufacturing equipment face long-drawn-out retooling and installation processes. Gorbachev's failure to deal with the already large budget deficit will intensify inflationary pressures. (See annex B.) ~~(C-NT)~~

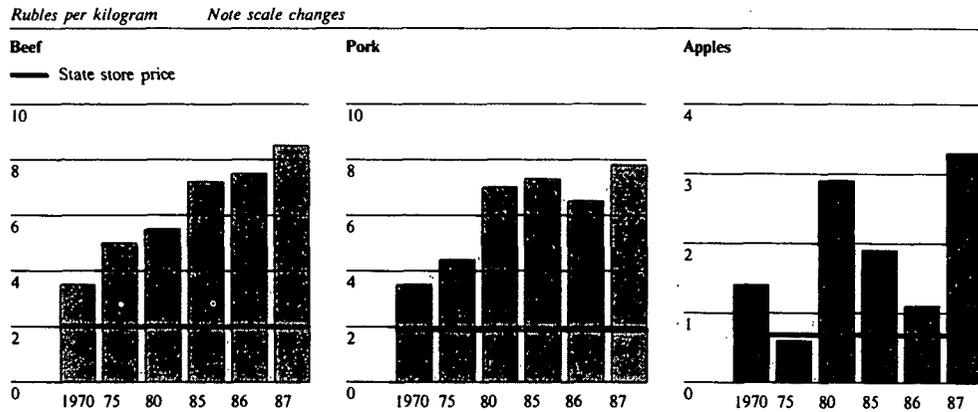
Soviet attempts to incorporate new technologies and create a more productive labor force will not be enough to narrow the technology gap in most sectors with the West during the remainder of this century. More important, gains in particular areas will not be self-perpetuating as long as incentives for dynamic technological change remain weak. The Soviets have undertaken a variety of measures to spur innovation and the introduction of new technologies, including: (1) raising prices for innovative products; (2) forming associations to gather research, development, and production responsibilities under one roof; (3) making

³ The Director, Defense Intelligence Agency, believes that this uneven performance could include sufficient improvement in the Soviets' economic and technical base to facilitate fulfillment of future military requirements. ~~(C-NT)~~

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Figure 6
Moscow: Collective Farm Market Prices
of Selected Goods^a



^a Data are for purchases made in Moscow in August or September of each year.

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information more available as a result of *glasnost*; and (4) encouraging joint ventures and technical exchanges with the more advanced countries. Nevertheless, systemic obstacles remain that discourage the introduction and dispersion of new technologies at industrial enterprises.⁶ Recent reforms aim at creating conditions and incentives for greater "technology pull" from below and expanding the autonomy of research and production collectives, but we believe these first faltering steps will not produce substantial results during the period covered by this Estimate. Acquisition of technology aimed toward military uses will not provide advances in Soviet industrial applications—the cornerstone of Soviet modernization. On the other hand, the new proposed forms of cooperative sharing of technology and managerial techniques with

the West, particularly joint ventures, could allow for easier transfer of technology than has been the case with traditional purchases of machinery and equipment.⁷ (S, NF)

There may be some economic benefits from the reform program that will help to prevent further deterioration in the planned economy. For example, financial pressures on enterprises should help reduce redundant labor and some waste of materials. On balance, however, we believe that such benefits will be slow in coming and that they will be outweighed by disruptions resulting from the conflicting and changing signals that piecemeal implementation of the reform program will continue to create. (C, NF)

^a The Director, Defense Intelligence Agency, believes that, since the Soviets already lead in several key defense technologies, they should be able to continue assimilating technology gains in this sector. (S, NF)

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We see no evidence that Gorbachev currently intends to impose more radical reform in the state sector, a strategy that would include:

- Disengaging enterprises completely from ministerial control and allowing them to respond to economic levers.
- Providing much better price and profit signals by allowing prices to fluctuate in response to supply and demand.
- Creating a more competitive environment by breaking up the present huge production conglomerates and permitting competition from abroad.
- Introducing financial and capital markets.

Such moves toward a market economy at this time would be even more disruptive to the planned economy than piecemeal implementation and in particular would jeopardize Gorbachev's campaign to win popular support for his programs. We believe it most likely that reforms for the state sector will continue to be implemented slowly. Only a small number of unprofitable firms will be shut down, and price reform will entail the periodic revision of prices rather than a change in the basic pricing mechanism to allow more flexibility. Nevertheless, Gorbachev has often reacted to setbacks by proposing increasingly radical measures, and we cannot rule out an effort to move rapidly toward a market economy in the state sector. (See annex C.) (C-INT)

We believe Gorbachev will continue to push forward on the moves already begun to expand private initiative by paving the way for growth in the private and cooperative sectors and by allowing long-term agricultural leases. For such reforms to work, however, Moscow must allow more flexibility and reliance on the market. We believe progress in this area will be difficult because a resentful public and skeptical local authorities are likely to continue retarding the development of the private sector. Furthermore, the lease contracting system in agriculture will probably remain bound by centrally directed procurement targets and state supplies of inputs as well as a recalcitrant bureaucracy. Goods supplied by the private sector will be costly, raising concerns over inflation. An added problem for Moscow is that these reforms probably will be most successful, at least initially, in non-Russian areas such as the Baltic states and the Caucasus. (C-INT)

We believe there will be escalating conflicts over resources as the industrial modernization program falls short, consumers continue to clamor for tangible rewards, and the military perceives no reduction in its needs. In the near term, the resource allocation debate will be sharpest on investment. The present five-year plan has no slack that would permit greater investment in priority sectors without offsetting adjustments in other areas. The regime continues to balance the books on the investment program by assuming large gains in productivity in key areas such as machine building, agriculture, industrial materials, and construction. Yet, in his three-plus years in power, Gorbachev has not made any progress in reversing the long-term decline in productivity. (C-INT)

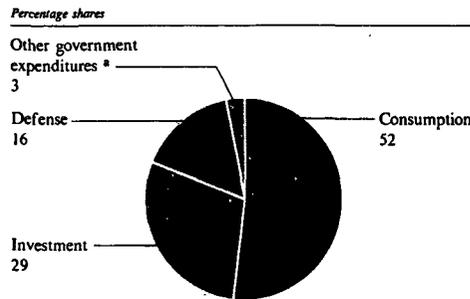
As a result, the leadership will have to tap resources outside the civilian machinery-production sector to continue the high investment strategy needed to renew the USSR's capital stock and improve productivity over the long term. As a large claimant on some of the economy's most valuable and productive resources, the defense industry is the prime, but not the only, candidate that will be tasked to support Gorbachev's industrial modernization drive. The defense industry already produces civilian investment goods and is the main source of some high-technology machinery and equipment such as robots, computers, and advanced machine tools both for its own use and for the civilian economy. (S-INT)

The defense industry has been given additional assignments to support the civilian sector and has been told that these civil projects must be given priority, even at the expense of some defense activities. We judge Gorbachev will divert additional resources from defense—including managers, equipment designers, investment funds, and plant capacity—to his civilian programs. The unilateral force reductions recently announced by Gorbachev could pave the way for cutbacks in weapons procurement in the near term, which will release defense industry resources for Gorbachev's civil economic agenda. While we recognize there is some redundant defense plant capacity, significant increases in the production of goods for the

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Figure 7
Estimated Distribution of Soviet GNP
by End Use



* Administration, other services, and civilian research and development.

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civilian sector beyond the short term would require a diversion of resources from the military. Some members of the military have acknowledged that defense must endure some pain under *perestroika* to help the economy and, hence, its own needs down the line. Nevertheless, diversion of resources from defense to civilian objectives will escalate conflicts over resource allocation because it could delay upgrades to weapons plants, thereby postponing the introduction of new systems. Clearly there are strong economic pressures for major reductions in military spending. The full extent of these trade-offs will be based on an ongoing decisionmaking and bureaucratic process that will continue over the scope of the Estimate. (C/NF)

The Director, Defense Intelligence Agency, holds the view that a critical distinction must be made in the discussion of resource allocation trade-offs between the resource requirements for short-term objectives and those of long-range goals. Short-term requirements will rely primarily upon existing plant capacity and inputs. The demands Gorbachev is making on the defense sector do not require significant short-term reallocations from defense to the civilian sector or the disruption of current procurement programs. In the

longer term, to achieve lasting gains in productivity, significant investment resources will be required. Redirecting investment going to the defense industry would not be sufficient to meet the economy's modernization requirements since other sectors take far greater shares of total investment. While slowing the flow of investment resources into the defense sector may well result in a downward turn in defense spending trends, the Soviets probably would maintain weapons programs that are key to force modernization, while stretching some lower priority programs and phasing out early some long-established weapons production runs. (S/NF)

The accumulating economic problems and the challenges posed by the simultaneous pursuit of economic and political reform will raise the level of contention higher than it has been so far in Gorbachev's tenure. As a result of these tensions and continued struggles over resource allocation, we believe there is some risk for Gorbachev's economic program. In the area of economic reform in particular, disruptions—widespread reform-related work stoppages or a drastic drop in performance indicators—would strengthen conservative opposition and convert to opponents those who have been only lukewarm supporters of reform. Such trends—coupled with the effects of *glasnost* and continuing nationality turmoil—could force the leadership into major retreat. If this should happen, the more orthodox elements of Gorbachev's program would survive, but the reforms designed to bring about a major decentralization of economic decision making would be shelved. (C/NF)

Implications for the West

On Arms Control

Gorbachev's initiatives in the arms control arena have been supported by development of "new thinking" in the formulation of national security policy. Three leading themes of this new policy are:

- *The economic dimension of national security.* Soviet leaders have linked an improved economy to the expansion of the USSR's influence, and they have

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contended that the challenge posed by the arms race to Moscow's superpower status is as much economic as it is military. They and the military leadership agree that significant improvements in the high-technology sector of the economy are essential to compete with future Western weapon systems.

- *The limits of military power.* Gorbachev has tried to promote a concept of "mutual security" that attaches greater weight to political factors.
- *"Reasonable sufficiency."* Gorbachev and his followers have characterized this concept as having the necessary forces to deter aggression, and they have indicated that the Soviets already have sufficient power to do so. The Party Congress in February 1986, moreover, endorsed Gorbachev's call to "restrict military power within the bounds of reasonable sufficiency." ~~(S NF)~~

In addition to trying to redefine Soviet national security requirements, we believe Gorbachev has moved arms control to the forefront of the USSR's national security agenda in an effort to dampen both external and internal pressures to spend more on defense, at least until he can reap the productivity gains he hopes to achieve from his industrial modernization program. With more than 150 Soviet Ground Forces divisions, 160 Soviet Air Forces regiments, and 50 Soviet Air Defense Forces regiments west of the Ural Mountains, any type of accommodation with NATO that would allow the Soviets to reduce expenditures on modernizing these forces has the potential to result in substantial resource savings. The Soviet leadership probably hopes that the process of arms control negotiations will weaken NATO's resolve to modernize conventional and tactical nuclear weapons—thus making possible cuts in their own defense spending. ~~(S NF)~~

The unilateral force reductions recently announced by Gorbachev could pave the way for cutbacks in weapons procurement in the years ahead. The amount saved will depend on the forces affected, the restructuring of remaining forces to give them what Gorbachev described as a "clearly defensive" orientation, the pace at which the reduced force is modernized, and the costs of carrying out these initiatives. (S NF)

A plausible long-term method of transferring resources would be to redirect future investment from defense industries into the civilian sector during the next five-year plan (1991-95). As a result of the large-scale modernization in the defense industries in the 1970s, the defense sector has already in place most of the equipment it needs to produce weapon systems scheduled for deployment through the early 1990s. But the high-quality machine tools, equipment, and raw materials required to retool the defense industry to produce the next generation of weapons are the same resources needed for Gorbachev's industrial modernization program. ~~(S NF)~~

For Eastern Europe and Soviet Client States

Attempts at political reform in the USSR are likely to generate pressure on East European countries for similar reforms. Moscow will also increase its demands on them for more and higher quality machinery and consumer goods and for greater participation in joint projects—particularly those involving the exploitation of Soviet natural resources. East European countries will also be asked to shoulder more of the costs of the Warsaw Pact defense effort. We believe these countries—which are facing economic constraints and are anxious to do hard currency business with the West—will be able to resist most of these demands successfully. ~~(C NF)~~

As to relations with client states, we expect increased pressure from Moscow for those countries to adopt reforms in order to reduce the burden of Soviet support. While such support is only a limited drain on resources, Gorbachev apparently believes that it is inconsistent to continue support at past levels to countries, such as Cuba and Vietnam, that are not willing to adopt more flexible economic policies. ~~(C NF)~~

In Commercial Relations

We do not foresee a large, sustained increase in Soviet imports from the technologically advanced capitalist countries. Poor Soviet export prospects mean that such an increase would have to be financed either by a

* For further details, see NIE 11/12-9-88 ~~(Secret NF NC)~~, May 1988, *Soviet Policy Toward Eastern Europe Under Gorbachev*. ~~(S NF)~~

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substantial runup of debt, which Soviet officials insist they will avoid, or by accelerated gold sales, which could risk significant reduction in world gold prices. In this regard, the situation facing Moscow in 1988 is far different from the USSR's position in the early-to-middle 1970s, when the Soviets could easily manage a substantial increase in their debt to the West:

- Now Moscow must contend with stable or declining oil prices and uncertainties over the quantity of oil available for export.
- Much of the debt incurred in the 1970s was formally tied to Western agreements to purchase Soviet raw materials. This option is currently being used more selectively.

Moreover, although the Soviets recognize the potential gains from increased use of Western technology and equipment, they lack the confidence in the ability of the economy—as currently configured—effectively to absorb and ultimately to diffuse imported technology on a large scale. ~~(C-INT)~~

We cannot rule out a temporary sharp increase in imports of consumer goods as a stopgap measure, given the leadership's concern over the lack of popular support for Gorbachev's programs. Even such an increase would only restore Soviet spending on consumer goods imports to pre-1985 levels. The Soviets cut back substantially on imports of consumer goods at that time in response to a large reduction in export earnings. In recent months Western banks have been negotiating credit lines with the Soviet Union worth between \$6 billion and \$9 billion—largely tied to Soviet purchases of machinery and equipment for the production of consumer goods. In the past the Soviets have arranged such lines and not used them fully, and it is currently unclear to what extent they will use these newly acquired credit lines. Unlike the mid-1970s, when credit competition among Western governments worked to the Soviets' financial as well as political advantage, the new credit lines do not offer preferential financing, nor do they otherwise materially broaden the potential base for Soviet borrowing. ~~(C-INT)~~

A surge in borrowing from the West would not aid the Soviet economy significantly or ameliorate the resource competition between the military and civilian

sectors. For example, even borrowing as much as Western bankers would allow—perhaps \$3-4 billion net annually in addition to the roughly \$5 billion needed per year to refinance maturing debt—would provide only a drop in the bucket for an economy that produces roughly \$2 trillion worth of goods and services annually. We believe the Soviet leadership will not undertake such borrowings for fear of the economic leverage it would give Western governments and bankers. Moreover, the Soviets recognize that plans for any debt buildup can go awry should Moscow unexpectedly confront lower oil prices, further depreciation of the dollar, or two consecutive bad harvests. ~~(C-INT)~~

We expect to see an intensification of Soviet foreign economic initiatives, including increased concessions to Western firms to conclude joint-venture agreements, greater efforts to learn from Western businessmen, a stepped-up campaign for GATT membership, and the possible release of more trade and financial data to facilitate improved borrowing terms. (See annex D.) Under these conditions Soviet hard currency trade will continue to be dominated by Western Europe and Japan. The Soviets also will push hard as a top priority to improve economic relations with the European Community. ~~(C-INT)~~

The Soviets will continue to press for trade and possibly financial concessions from the West. This will lead to increased pressures for the West to pare further the list of COCOM-controlled technologies. Such pressure will make it more difficult for the West to maintain a unified stance on current agreements—or reach a new consensus—concerning trade and financial flows to the Soviet Bloc. ~~(C-INT)~~

For Western Leverage

Given the severity of Soviet economic problems, Gorbachev needs the many benefits of a nonconfrontational international environment. This gives the United States and its allies considerable leverage in bargaining with the Soviets over the terms of that environment on some security issues such as regional conflicts and arms control and on some internal

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matters such as human rights and information exchange. The margins of this leverage will be set by Moscow's determination not to let the West affect the fundamental nature of the Soviet system or its superpower status.' (C NF)

* For a fuller discussion of these issues, see SNIE 11-16-88, *Soviet Policy During the Next Phase of Arms Control in Europe*, November 1988; NIE 11-3/8-88, *Soviet Forces and Capabilities for Strategic Nuclear Conflict Through the Late 1990s (Volume I)*, December 1988; and the forthcoming Estimates NIE 11-14-88, *Trends and Developments in Warsaw Pact Theater Forces and Doctrine, 1988-2007*; and NIE 11-4-89, *Soviet Strategy Toward the West: The Gorbachev Challenge*. (C NF)

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Annex A

The "Kosygin Reform"

As outlined by Kosygin, the 1965 reform program was to include an administrative reorganization of the bureaucracy, some decentralization of planning and decisionmaking functions from the ministries to the enterprises, a change in success criteria for enterprises, a revision of wholesale prices, and a reform of the industrial supply system. ~~(S)~~

In comparison, Gorbachev's reform program is much more comprehensive and integrated, encompassing other key elements. For example, his price reform, unlike previous efforts, is designed to encompass all forms of prices—wholesale, procurement, and retail—and, in theory, is intended to change the basic pricing mechanism. ~~(S)~~

The 1965 reforms were handicapped by major economic flaws and inconsistencies. But they foundered largely because of opposition from the government bureaucracy, which reacted by procrastinating, assimilating, complicating, and regulating. Implementation of the reform also suffered from a lack of strong

leadership backing. Its initiator, Kosygin, became increasingly overshadowed by Brezhnev, who lacked his predecessor's commitment to reform. The climate for a decentralization of decisionmaking became even less favorable after the Czechoslovak "spring" of 1968, which underscored the political risks of reform. Consequently, the reform was never implemented as initially intended. ~~(S)~~

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Annex B

The Budget Deficit

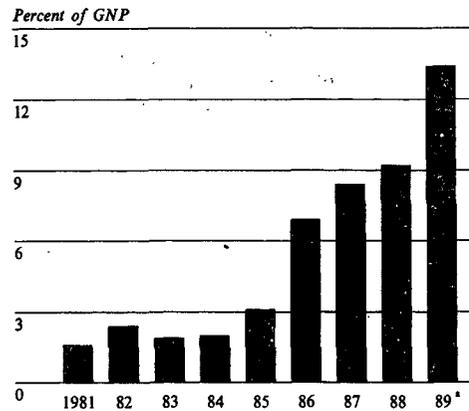
The Soviet state budget deficit has increased dramatically during the last three years. We calculate the 1989 deficit will be about 125 billion rubles—some 13 percent of Soviet GNP. (For comparison, the highest US Government budget deficit represented 3.5 percent of US GNP in fiscal year 1986.) (c) (u)

The inflationary pressures resulting from Moscow's fiscal policy are already visible. Growth of wages almost doubled in the first half of 1988. There has been a marked increase in the prices of consumer goods sold in collective farm markets, along with higher prices and increased shortages of consumer goods in state stores. Articles in the Soviet press have complained loudly about enterprises inflating the prices of new machinery products. Excess purchasing power also has probably led to an expansion of the underground economy, which results in resource diversions from the state sector and undermines attempts to spur state worker productivity through higher wages and salaries. (c) (u)

Gorbachev's policies are partly responsible for the deficit rise:

- State spending has risen rapidly as a result of large boosts in state investment and increases in total state subsidies on food and livestock products.
- Receipts from stiff sales taxes on alcoholic beverages are down substantially as a result of the regime's antialcohol program.
- Revenues from the large markups imposed on the retail prices of imported food and consumer goods have fallen sharply as a result of the cutback in these imports starting in 1986.
- Proceeds from enterprise profit taxes grew slowly last year because of production problems due to retooling, reforms, and quality control measures. (c) (u)

Figure 8
USSR: Estimated State Budget Deficit, 1981-89



^a Projected.

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Annex C

Soviet Economic Reform: Signs of a Radical Economic Shift

Indicators of forward movement toward radical, market-oriented reform would include:

- Less emphasis on the fulfillment of 1986-90 Five-Year Plan targets and the announcement of realistic 1991-95 goals. The 1989 plan already has accepted targets for produced national income and industrial production that are lower than called for in the current five-year plan.
- Strong, united commitment by the leadership not only to the general concept of economic restructuring but also to individual elements of the reform program that are particularly controversial, such as essential price changes or even price reform.
- Willingness to carry through particularly painful adjustments such as bankruptcies that close down many enterprises and wage reforms that lead to wide differentials in pay.
- Evidence of a large expansion in the number of cooperatives (and employees of cooperatives) and the playing down of resentment by the general populace over egalitarian issues.
- Promulgation of major new agricultural reforms that reduce the powers of the state and collective farms.
- Greater consolidation of economic ministries, accompanied by cuts in staff and revision of their charters to steer them away from supervising the day-to-day activities of economic enterprises.
- Continued ability of reform economists to publish controversial articles that push the limits of reform. ~~(O-N)~~

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Annex D

Update on Joint Ventures

Moscow has signed 41 joint-venture contracts with Western firms in 1988, bringing the total to 61 since legislation governing such contracts took effect in January 1987. Nevertheless, Soviet leaders are discouraged by the low level of investment and technology in most of these deals and are considering changing the program to encourage more Western participation. Such changes might spur additional contracts, but primarily from firms interested in small-scale projects. ~~(C-NF)~~

Moscow's relative success in negotiating joint ventures is largely the result of greater Soviet flexibility, particularly in easing restrictions on the repatriation of profits, the biggest obstacle to concluding agreements. The original legislation allowed Western firms to earn hard currency profits only by exporting finished products of the joint enterprise. Moscow is now allowing an array of options, including countertrade agreements in which the Western partners export Soviet goods to earn hard currency. In one agreement, the Soviets reportedly will also allow a consortium of six US firms to repatriate profits by pooling their hard currency earnings. ~~(C-NF)~~

Despite the surge in agreements, the Soviet leadership is far from satisfied with the progress of its joint-venture program. Service and consumer-related projects, rather than high-technology deals, still dominate the list of completed contracts. ~~(C-NF)~~

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2. SOV 89-10077, Central Intelligence Agency, Office of Soviet Analysis, September 1989, *Gorbachev's Domestic Gambles and Instability in the USSR*



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Gorbachev's Domestic Gambles and Instability in the USSR ~~(S)~~

An Intelligence Assessment

This paper was prepared by Grey Hodnett, Office of Soviet Analysis. Comments and queries are welcome and may be directed to the Director of Soviet Analysis on 482-7170 or secure ~~██████ (S)~~

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Gorbachev's Domestic Gambles and Instability in the USSR (U)

Key Judgments

Information available
as of 21 September 1989
was used in this report.

Gorbachev and other Soviet leaders are concerned about serious future breakdowns of public order in the USSR. This concern is well justified. The unrest that has punctuated Gorbachev's rule is not a transient phenomenon. Conditions are likely to lead in the foreseeable future to continuing crises and instability on an even larger scale—in the form of mass demonstrations, strikes, violence, and perhaps even the localized emergence of parallel centers of power. This instability is most likely to occur on a regional basis, not nationwide—although overlapping crises and a linking together of centers of unrest could occur. ~~(C NF)~~

Instability in the USSR is not exclusively a product of *glasnost*, and some of it is indeed a sign—as Gorbachev asserts—that reforms are taking hold. But Gorbachev's claim that instability otherwise merely reflects the surfacing of problems that were latent or repressed under Brezhnev is only partly true. The current budget deficit and consumption crisis is largely due to policies Gorbachev himself has pursued since 1985. And the prospects for further crises and expanded turmoil in the future are enhanced by key policy gambles he is taking now:

- In the *nationality* arena, Gorbachev is gambling on defusing ethnic grievances and achieving a more consensual federative union through unrestrained dialogue, some concessions to local demands aimed at eliminating past "mistakes," a constitutionalization of union/republic and ethnic group rights, and management of ethnic conflict to a substantial degree through the newly democratized soviets.
- In the *economic* arena, Gorbachev is gambling that, by putting marketization on hold through the postponement of price reform, and by pursuing a short-term "stabilization" program, he can avoid confrontation with the public and reengage in serious economic reform without steep costs at a later date.
- In the *political* arena, Gorbachev is gambling that, by transforming the Communist Party from an instrument of universal political, social, and economic management into a brain trust and authoritative steering organ, while empowering popularly elected soviets, he can create a more effective mechanism for integrating Soviet society and handling social tensions. ~~(C NF)~~

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Gorbachev has no easy choices, and other approaches would not necessarily be safer or more successful. But these gambles, understandable and even desirable from a democratic standpoint, are based on questionable premises and wishful thinking:

- The aspirations of many non-Russians will never be satisfied within the framework of maximum rights the Soviet leadership could grant union republics or so-called autonomous ethnic formations within national republics while still preserving a strong federative USSR. Allowing these people freedom to protest without being able to redress their basic grievances is a recipe for escalating crises.
- Because the deficit reduction plan is likely to fall far short of planned targets and because it is unlikely that supply can catch up with consumer "needs" without a price-induced change on the demand side, Gorbachev's emergency financial "stabilization" program more likely than not will fail. In the meantime, circumstances for introducing marketization of the economy will have become even less propitious than they were when this program was introduced, setting the stage for continued corruption, protracted economic crisis, and retreat to the old "command-edict" methods.
- Gorbachev's attempt to reform the Communist Party is based on a visionary notion of what it could become, and is in practice undermining its ability to integrate Soviet society before new political institutions are capable of coping with mounting popular demands unleashed by *glasnost* and failing economic performance.

As Gorbachev's various critics correctly contend, his gambles are likely to generate instability over both the near and the longer term. ~~(C N F)~~

The odds are high that labor unrest or ethnic strife will—perhaps even within the next six months—create strong pressures within the Soviet leadership to crack down much harder than it has to date. Soviet leaders have a broad range of instrumentalities they can employ to dampen instability, ranging from stronger threats, to new restrictions on human rights, to police intimidation, to imposition of martial law. We have evidence in at least one case of sharp disagreement within the Politburo over the use of violence. Gorbachev has sought to avoid widespread use of

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physical force, probably calculating that the fallout from repression would endanger his entire program of *perestroyka* as well as his foreign policy, while perhaps provoking more serious disorders that could lead to loss of control. Almost certainly he would be willing to escalate coercion somewhat to maintain order and isolate nationalist or other "extremists," as he threatened to do in his report on nationality policy to the Central Committee plenum on 19 September 1989. Yet beyond a certain point, repression *would* mean abandonment by Gorbachev of his natural constituency and his entire political program. There is some evidence that he might choose to resign rather than assume responsibility for a crackdown involving a major imposition of martial law. Alternatively, the imposition of harsh measures could be associated with a coup d'etat or legal removal of Gorbachev. ~~(S-NF-NC-UC)~~

Provided he manages to hold onto power, two outcomes of Gorbachev's rule are possible, depending on how successfully the economy is marketized. In both scenarios, Gorbachev's retention of power depends upon avoidance of acute polarization of political forces and progress in reinstitutionalizing means of political integration. This process would be reflected in further democratization of the political order, the emergence of some form of multiparty competition, and a loosening of the Soviet multinational empire. If political reform were complemented by effective financial stabilization and marketization, there might be high instability in the near term (two to five years), but a course could be set toward long-term (10 to 25 years) social equilibrium. Without financial stabilization and marketization, on the contrary, there would be rising instability in the near-to-medium term, high instability in the long term, and likely movement of the Soviet system toward revolution, a hard-right takeover, or "Ottomanization"—growing relative backwardness of the USSR and a piecemeal breakoff of the national republics. ~~(S-NF)~~

Gorbachev's gambles and the centrifugal trends they have set in motion are already viewed with extreme alarm and anger by many members of the Soviet political elite. But Gorbachev's major gains in the Politburo at the September 1989 plenum of the Central Committee demonstrated once again how difficult it is to translate conservative sentiment in the ranks into effective opposition to Gorbachev's rule at the top. For the time being, his power looks secure. If, somehow, a successful challenge were mounted against him over the next year or so, the most likely outcome would be a

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traditionalist restoration that would attempt to "draw the line" in various areas—especially with respect to democratization of the party and soviets, *glasnost* in the media, the conduct of informal groups, and expression of "nationalist" views—but would accept the need for significant change, including reduction in military spending and decentralization of management. Unless such a regime chose to move ahead vigorously with marketization (not impossible, but highly unlikely) it would obtain possible stability in the near term but suffer high medium- to long-term instability, leading toward Ottomanization or upheaval from below. If Gorbachev were not overthrown in the near term, an attempt to turn the clock back would become more difficult—given the reaction of increasingly well-entrenched pluralistic forces—and could thus also be nastier, possibly involving the armed forces and taking on a xenophobic Russian nationalist coloration.

~~(C NF)~~

Whether or not Gorbachev retains office, the United States for the foreseeable future will confront a Soviet leadership that faces endemic popular unrest and that, on a regional basis at least, will have to employ emergency measures and increased use of force to retain domestic control. This instability is likely to preoccupy Moscow for some time to come and—regardless of other factors—prevent a return to the arsenal state economy that generated the fundamental military threat to the West in the period since World War II. Moscow's focus on internal order in the USSR is likely to accelerate the decay of Communist systems and growth of regional instability in Eastern Europe, pointing to the need for post-Yalta arrangements of some kind and confronting the United States with severe foreign policy and strategic challenges. Instability in the USSR will increase uncertainty in the West about proper policies to pursue toward Moscow, reflecting nervousness about Soviet developments but nonchalance about defense, and will strain domestic and Alliance decisionmaking.

~~(C NF)~~

Domestic policy successes or failures will be the paramount factor ultimately determining Gorbachev's retention of office, but foreign policy achievements that allow him to justify further cuts in military spending on the basis of a reduction in the external "threat" would give him more room for maneuver. Western actions that could be presented by his opponents as attempts to "take advantage" of Soviet internal instability could hurt Gorbachev. ~~(C NF)~~

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By putting economic reform on hold and pursuing an inadequate financial stabilization program, Gorbachev has brought Soviet internal policy to a fateful crossroads, seriously reducing the chances that his rule—if it survives—will take the path toward long-term stability. Over the short haul, there appears to be lack of competence among his advisers in the area of monetary and fiscal policy. A more fundamental weakness in Gorbachev's strategy that will perpetuate instability is its hesitant approach to marketization and unwillingness to face up to the necessity of real privatization of ownership of capital stock and land. He and his advisers need help with economic theory. Reduction of instability over the long haul requires the steady extension of a law-based private sector. (CONF)

Harsh repression of labor unrest or of food riots in Russian cities are certainly contingencies that could require a response from US policymakers. But instability provoked by Gorbachev's gambles is likely to present its severest challenge to US policymaking through a crackdown in the ethnic arena—probably not in response to communal violence, but in the context of a move by Moscow to intervene in Russian-native clashes or to repress the drive for greater national autonomy. Such a crackdown is most likely in the Baltic region, but could also come in the Caucasus, Moldavia, or—down the road—even in the Ukraine. (CONF)

Gorbachev has said he wants to create a constitutionally structured federative union, and movement toward such a system would certainly be a positive development from the US perspective. Gorbachev, however, is *not* interested in greasing the skids for dissolution of the USSR, and this is precisely what acceptance of the more radical Baltic demands would imply. Unless Gorbachev is prepared to broker a special status for the Baltic republics, and is able to win necessary political support for such an arrangement, a direct and violent confrontation between Moscow and the Baltic peoples seems likely. (CONF)

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Scope Note

This report offers a broad look at Gorbachev's domestic strategy and its implications for stability in the USSR. Descriptive sections of the report take into account the full range of classified and open-source information available, especially that dealing with Gorbachev's views, and are consistent with more detailed analysis produced by the Directorate of Intelligence. No systematic attempt is made to source the various judgments which, in the projective sections of the report, are based—as they are in all estimative writing—on a combination of extrapolation and logical inference. ~~(C NF)~~

The report is a speculative paper drafted by a senior analyst in the Office of Soviet Analysis. In a period of epochal change in the USSR, anticipating the future is a hazardous undertaking, and the issues dealt with in the report hardly invite unanimity of judgment. Although there are differences among analysts on specific issues, the report's conclusions do reflect our sense of the problems and challenges that confront Gorbachev's revolution and the general direction in which it is now heading. ~~(C NF)~~

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Gorbachev's Domestic Gambles and Instability in the USSR (S)

Introduction

Despite the increasingly pessimistic tenor of recent assessments in Moscow of Gorbachev's popularity and prospects, and rumors of coups or military intervention, his major gains in the Politburo at the September 1989 plenum of the Central Committee demonstrated once again great tactical political skill in transforming attacks against his line into movement forward. For the time being, at least, the future of *perestroika* would appear to be less dependent on political struggle in the Politburo than on faltering regime performance. (C-INT)

Many factors will affect this longer term performance. A key one, however, is Gorbachev's broad sense of where he wants the Soviet Union to go and how he seeks to get there—which is the focus of this paper. Western analysts disagree over the extent to which Gorbachev has a set of stable long-term objectives. Like Soviet observers, they are also uncertain whether Gorbachev's stated objectives are always necessarily his "real" objectives. The premise of this paper is that, while his positions have evolved over time, Gorbachev does have a fairly coherent "vision" (but not a "blueprint") of the future that is revealed in both classified and unclassified sources. The existence of such a vision does not, of course, preclude tactical dissembling and ad hoc adjustment to circumstances. (C-INT)

Gorbachev has insisted that the domestic revolution that he has launched in the USSR—which involves radically dismantling an existing *system* of more or less stable, if stagnant and poorly performing institutions—is the only path open. In fact, *perestroika*, *glasnost*, and *demokratizatsiya* were not and are not the only options open to the Soviet Union: they represent the ultimate gamble on Gorbachev's part that a liberal, reformed Communism is possible and that the destabilization brought by change is containable. While denying his own fundamental responsibility for instability, Gorbachev has claimed that some measure of it is a necessary corollary of reform. And, in fact, instability arising from certain types of change

undoubtedly is a sign of progress. Yet *glasnost* has accelerated the delegitimization of the present system. It has irretrievably destroyed the regime's capacity to use Marxist-Leninist doctrine as an instrument of political control. And it has weakened popular obedience to authority. (C-INT)

Gorbachev is now embarked on a set of related gambles as he seeks to reform ethnic relations, the economy, and the general political system. These too are producing crises, on which Gorbachev hopes to capitalize to provide further momentum for *perestroika*. From these crises new instability will arise, with the key questions being: how serious will manifestations of this instability be, and what types of crackdown is it likely to inspire? To call Gorbachev's choices gambles, of course, does not imply that other approaches would necessarily be safer or more successful; in each case, the trade-offs are not easy. (C-INT)

Nationality Policy Gamble: Concessions Within Limits

Establishing a framework for dissolution of the USSR is not on Gorbachev's agenda. Yet he does seek solutions to the nationality problem that enjoy legitimacy, are not simply imposed by Moscow, and obviate levels of repression that would wreck his overall policy of *perestroika*. The vision he has articulated over the past year or so—most recently at the September 1989 plenum of the Central Committee—encompasses:

- Transition of the USSR from a de facto unitary empire tempered by toleration of local boss rule to a more consensual union with real federative content.
- Constitutional delimitation of the functions of the Center and the national republics, with an increase in the authority allocated to the republics and some decentralization of operational powers within the Communist Party.

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- Removal of discriminatory and provocative obstacles to the development of non-Russian languages and cultures, while preserving a strategic role for Russian as the language of interethnic communication.
- Equalization of the rights of all *nations* (including minor nationalities and Russians), balanced by equalization of the rights of *individuals* regardless of their place of residence.
- Integration of the national republics within a single unionwide economy, in which the "socialist market" harmonizes the interests of the multiethnic whole with the interests of the ethnic parts, but in which there is also some devolution of power to the republics. ~~(C NF)~~

The Soviet leadership confronts two quite different types of ethnic crises: the assertion of traditional nationalist demands for greater cultural, political, and economic autonomy from the Center; and rage generated by economic and social grievances that finds an outlet in communal violence. In principle, the first type of crisis can possibly be resolved, if not through political dialogue (there are many forms of autonomy and even "independence"), then at least through a type of crackdown that does not involve physical force; whereas the second type requires physical repression—utilized in a context, of course, that invites more sympathy on the part of outside observers. ~~(C NF)~~

In nationality policy, Gorbachev's gamble lies in the scope he has permitted for public expression of ethnic grievances and demands. He has acquiesced in a mushrooming of "informal" organizations in the non-Russian republics that, by any standard, are articulating "nationalist" views. He has tolerated substantial absorption of ethnic platforms by republic Communist Party organizations. With some exceptions, he has sought to resolve nationality problems through dialogue and has generally exercised restraint in repressing communal violence or pronational ethnic demonstrations. Indeed, there is some evidence that Moscow may be willing to go very far to meet Baltic demands, provided there is no deviation from the Center's line on foreign policy, defense policy, and—perhaps less categorically—financial-monetary policy.

~~(S NF NC OC)~~

Gorbachev is evidently convinced that the potential exists for the emergence of a broadly shared sense of genuine unionwide community among most Soviet citizens. Ethnic instability, he seems to believe, arises basically from past policy mistakes and mismanagement. Thus, ethnic unrest can eventually be moderated if these errors are corrected and legitimate ethnic grievances addressed. He has issued several stern warnings against "nationalism." At the September 1989 plenum of the Central Committee he observed that "the time has . . . come to talk with the clear and forcible language of law about conditions under which nationalist, chauvinist, and other extremist organizations can and should be banned and disbanded by the court." But he probably believes that attempts to "draw the line" through coercion are likely to trigger still higher levels of ethnic tension and play into the hands of opponents of *perestroika*. And he seems to be counting heavily on the reconstituted political institutions of the USSR—especially the empowered Supreme Soviet and local soviets—to provide a mechanism through which ethnic interests and demands can be accommodated. He may hope to promote a coalition between reformers in Moscow and moderates in the non-Russian republics. In the Baltic area, he appears to have gambled that prudence will triumph over passion; that republic party leaders will be able to convince the population that Moscow *will* ultimately resort to force if compelled to do so, and that the republics should not—in a reckless lurch toward secession—risk what they now stand to gain.

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However, the radicalization of ethnic demands and expansion of the mass popular base for ethnic assertiveness we see occurring, as well as the entrenchment of communal violence, suggest how tenuous the prospects are for Gorbachev's strategy. Lifting the lid on the nationalities has energized anti-Russian sentiments among the titular nationalities after whom the republics are named, created great anxiety among the Russian settlers who constitute large fractions of the population in major cities in these republics, and opened a path for cross-republic ethnic strife. It has also activated latent conflict between titular and small

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nationalities, produced a flow of more than 340,000 internal refugees since 1987, and set the stage for a potentially sharp Russian backlash against Gorbachev's "permissiveness." In at least one case, Lithuania, it is possible that the republic party organization may proclaim its independence of the CPSU. While security and economic interests probably will constrain some of the titular nationalities from seeking to secede from the USSR, these inhibitions may not apply to Balts, Belorussians, and Ukrainians. ~~(C, NF)~~

Economic Reform Gambles

In the economic reform area, Gorbachev's vision postulates creation of a self-regulating "socialist market" system in which central physical planning has been largely eliminated and enterprises make decisions essentially by responding to market forces. Decision cues are provided by prices set largely by supply and demand, and inputs are acquired through direct contracts and wholesale trade. In this system the state plays a coordinating role, sets the "overall normative framework," and takes the lead in promoting science and technology, infrastructure development, environmental protection, establishment of a financial-banking-tax system, enactment of antimonopoly measures, and institutionalization of the entire system within a structure of law. Operational control would pass from middle levels of the bureaucracy to the basic production unit, reflected in (a) a breakup of large economic conglomerates and a transfer of control from the economic bureaucracy to production collectives (especially through leasing), and (b) democratization of enterprise management, in which workers' collectives elect their managers and oversee key production decisions. The "socialist" aspect of this postulated system would apparently consist of two features: retention and expansion of a strong welfare state component (Sweden is mentioned as an example to emulate); and continued public ownership of at least most land and capital stock, although leasing and other arrangements would substantially modify the concept of property. ~~(C, NF)~~

Gorbachev's own policies, however—including the steep reduction of revenues from state alcohol sales, the financing from the budget of the crash machine-building program, wage boosts for some categories of

workers, increased spending for social programs, and escalating food subsidies—generated a rapidly rising budgetary deficit and shortage of consumer goods sufficiently ominous to persuade him in 1988-89 to agree to a "stabilization" strategy for the next several years. The main elements of this strategy are (a) postponement of retail and wholesale price reform; (b) the adoption of a crash budget deficit reduction, resource reallocation, and consumption program; and (c) continued pursuit of selected elements of structural reform. This change of course has brought Soviet domestic policy to a fateful crossroads. ~~(C, NF)~~

Postponement of Price Reform

Gorbachev's statements through mid-1988 strongly favoring price reform make it abundantly clear he understands that full transition to an economy in which financial calculations effectively determine decisionmaking depends on price reform. Nevertheless, he has publicly and repeatedly committed himself since then to postpone retail price reform "two or three years," to discuss it with the public before doing anything, and not to change prices without public consent. In the absence of retail price reform, planned hikes in wholesale prices would require increased state subsidies that would add to the financial imbalance Moscow is fighting to bring under control, and Gorbachev has also delayed these increases indefinitely. There is no mystery why he has agreed to this critical policy position: to proceed with price reform at this point would also have been a difficult gamble. Gorbachev and his advisers were deterred by the prospect of having to cope with a possibly violent popular response to price increases, hoped to buy social peace, and convinced themselves that conditions to move on prices would be more propitious later once financial "stabilization" had been achieved and hyperinflation averted, the monopoly factor dealt with, and other steps taken. ~~(C, NF)~~

The costs of this gamble are likely to be enormous. By largely postponing the establishment of the indispensable prerequisite for economically rational decisionmaking, the gamble blocks workable decentralization, the introduction of genuine wholesale trade, and

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reliance on financial levers—thus effectively putting marketization on hold irrespective of other important constraints. Failure to deal with wholesale prices will intensify the problems and costs in the future of currently underpriced nonrenewable resources (especially energy and minerals). It will also build further irrationality into investment and the stock of fixed capital; imposing still higher economic and social costs downstream for corrective actions. Subsidies to agriculture will also have to rise. ~~(C/NF)~~

On the retail side, Gorbachev's *talk* about price reform has been an invitation to the population to increase hoarding of consumer goods. The longer retail prices are frozen, the more the pattern of consumer demand is distorted, as faulty signals mislead producers and consumers. If food sales increase, so will food subsidies. Most important, delay may make the ultimate problem of dealing with retail prices that much more intractable: prices that might only have had to be doubled, let us say, may—with delay—have to be quadrupled. Meanwhile, the postponement of retail and wholesale price reform will expand corruption throughout the economy, producing an adverse effect on popular morale and public tolerance for *perestroika*. ~~(C/NF)~~

The Crash Budget Deficit Reduction, Resource Reallocation, and Consumption Program

In the period 1981-85 the average annual budget deficit was 16.7 billion rubles. This figure rose to 58.7 billion rubles in 1986, 72.9 billion in 1987, 90.2 billion in 1988, and a CIA-projected 126 billion in 1989. Alarmed by the growing financial imbalance in the country, the Soviet leadership has approved an "emergency" program to reduce expenditures on investment,¹ defense, subsidies to unprofitable enterprises, administrative costs, and social programs, and to increase revenues from imports of consumer goods, turnover taxes on increased production of consumer goods, and social insurance payments. There is discussion of financing the deficit, in part at least, through the sale of state securities and bonds bearing an interest rate of 5 percent. The strategy has also

¹ State centralized investment for "productive" uses in 1990 is to be 30 percent less than the target for 1989, and for some sectors of heavy industry the reduction is to be 40 percent. ~~(C/NF)~~

accelerated conversion of defense industry for civilian production, mandated a crash expansion of consumer goods production by all branches of industry, and reversed signals by accepting the recommendation to initiate increased imports of consumer goods. Gorbachev's hope is that he can "saturate" the consumer market, mop up some of the huge cash savings of the population, eliminate shortages, avert hyperinflation or "barterization" of the economy, head off popular unrest, and create equilibrium conditions under which it will be possible later to initiate full marketization. ~~(C/NF)~~

Yet it is highly likely that deficit reduction will fall far short of planned targets. It will be hard to impose investment cuts on ministries and republics, and there is pressure—expressed already through the Supreme Soviet—to block delays in the implementation of social programs. Inflation itself will begin feeding back to raise the level of government spending. Moreover, gains in projected revenues from turnover taxes are based on unrealistically high targets for the production of consumer goods, and subsidies for agriculture and other consumer goods will remain a major drain on the budget. ~~(C/NF)~~

There are other problems with the "stabilization" formula. Without a price-imposed change on the demand side, it is unrealistic to hope that supply can catch up with consumer "needs." The across-the-board campaign approach—implemented through the very "command-edict" methods that Gorbachev says he deplors—is likely to result in inferior products, high costs, and waste. Expansion of consumer-goods imports will impose still greater stress on Soviet hard currency reserves, force acceptance of higher levels of indebtedness, and defer imports for other sectors of the economy. At the same time, fear of the economic and political consequences of a higher hard currency debt, and recognition that imports would have to be far greater to substantially diminish the savings "overhang," are likely to inhibit consumer-goods imports as a central component of financial stabilization. On the investment side, radical, abrupt shifts in proportions historically have—by ignoring the interdependence of different economic sectors—wasted

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resources and thrown the losers into a tailspin. It is not inconceivable that the magnitude of cuts projected in heavy industry could generate a chain reaction of producer-good supply shortages, leading to a spiraling downturn in production in the economy. ~~(C-REF)~~

Selective Structural Reform

Gorbachev has by no means acknowledged that his decision on prices and macroeconomic "stabilization" puts economic reform on hold. He talks as if he wishes to move ahead. At the September 1989 plenum of the Central Committee he called attention to forthcoming discussion by the Supreme Soviet of draft fundamental laws on ownership, land, leasing, republic economic rights, the local economy, self-management, and taxation. And, in fact, there is momentum to press forward with implementation of the 1987 Law on the State Enterprise and elements of reform that are preconditions of marketization, such as expansion of enterprise rights in setting prices, wages, and output levels; partial derationing of industrial supplies; and reduction in the number of plan indicators. In the absence of rational prices and other essential conditions, however, these steps have the perverse effect of promoting arbitrary or monopolistic price increases rather than cost reduction, wasting "cheap" energy and raw materials, encouraging wage increases not matched by productivity gains, and motivating enterprises to produce the wrong output mix. The devolution of some economic decision making authority from the Center to the republic and regional levels, which is also being conducted under the rubric of economic "reform," can have some beneficial effects, but risks simply transferring "command" methods from the State Planning Committee to local bureaucrats and strengthening autarkic tendencies that weaken overall marketization. ~~(C-REF)~~

A Gorbachev initiative with serious long-term implications has been the fostering of new forms of "ownership" and management of production units. Gorbachev believes that the establishment of *proprietary* interest is a basic key to economic revitalization and that this condition cannot be achieved under the present depersonalized state ownership of the means of production. Thus he is pushing strongly for acceptance of the proposition that "various" forms of ownership are legitimate under "socialism." Yet, at

the same time, he has sharply attacked Western-style private ownership of the means of production, equating this with "exploitation." Although he supports cooperatives, the solution to this ideological dilemma, he emphasizes over and over, is the *leasing* of capital stock and land to production collectives. He has in mind not just agriculture and services, but large chunks of industry. He clearly hopes that leasehold property "ownership" will engender proprietary interest, combat monopoly, and defeat bureaucratic sabotage of *perestroyka*—while avoiding the supposed adverse social consequences of real privatization. In the not too distant future it is quite possible that Gorbachev will unleash a big campaign to shift the economy to leaseholding, despite resistance to it by Yegor Ligachev and perhaps other members of the Politburo. ~~(S-N, NC, OC)~~

The difficulty with Gorbachev's calculation is that experience in both Eastern Europe and the West suggests that leaseholding does *not* produce the same positive benefits as private ownership, although in certain limited situations the results may be useful. Leaseholding does not provide the basis for creation of a true capital market, with the sale and purchase of production assets. Thus market prices for capital and land cannot emerge. Prices for these resources would still have to be set by planners and could not reflect particular circumstances or changes in values over time. Nor does leaseholding create the same interest or empowerment of specific individuals to seek to increase the value of enterprise assets. On the contrary, it may well make required investment and structural rationalization decisions more difficult by encouraging leaseholders of state-owned property simply to "mine" their assets—diminishing the economy's production capacity over time. ~~(C-REF)~~

Possibly Gorbachev recognizes these problems and sees leaseholding as an ideologically defensible "cover" for a longer term transition from collective to private ownership. Reporting [REDACTED] suggests, however, that he really does reject *large-scale* private ownership on ideological grounds and believes that leaseholding provides a workable "socialist" alternative. His attacks on private ownership

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have been complemented by hedging in his defense of cooperatives. By making these politically convenient accommodations to the dominant collectivist preferences of Soviet elites and the population, at a time in which the absence of legally regulated markets is spawning growing corruption throughout the decentralized sector of the economy, Gorbachev is reinforcing strong impulses that exist to reassert "administrative" controls over the economy. ~~(S NF NE OC)~~

The collectivist predicament carries over into the sphere of management. Gorbachev has vigorously supported workplace democratization, including the election of managers, as a means of breaking resistance to *perestroika* within the bureaucracy and overcoming alienation and apathy among the work force. The principle of electivity of managers was codified in the Law on State Enterprises, adopted in July 1987. In combination with collective leaseholding, however, workplace democratization would appear—potentially at least—to be setting the Soviet Union on the Yugoslav path. It will probably discourage investment by enterprises, encourage unjustified wage increases, make it harder to broaden wage differentials, strengthen pressures to continue subsidizing enterprises operating at a loss, and promote inflation. ~~(C NF)~~

Political Reform Gambles

Drawing on the experience of earlier economic reform efforts, Gorbachev has argued that economic reform will fail unless it is underpinned by political reform. Since 1987 he has promoted political reform as the key to *perestroika*. His aim is to replace the traditional Stalinist system of political power with an entirely new structure that is less centralized, more democratic, more open to the unrestricted flow of political ideas and information, more "constitutionalized" through fundamental law, and more protective of the citizen's civil liberties. The key changes are those affecting the demarcation of functions and power between the party apparatus and the popularly elected soviets. ~~(C NF)~~

Transformation of the Communist Party

In the existing Soviet system the Communist Party has provided the central mechanism of political integration. Under its aegis, acting more or less collegially

through bureaus selected co-optatively at all levels of the party, representatives of the system's key institutions (the economic hierarchy, the soviets, the security organs, and—especially—the party's own bureaucracy) have decided policy. In this system the party bureaucracy—the "apparatus"—has itself routinely exercised the right to issue binding orders to officials in all other bureaucracies. It has also controlled the process of personnel appointments to all leadership posts in all institutions, whether these posts are appointive or nominally "elective," through the *nomenklatura* system. Below the central level, the key function actually performed by the party apparatus has been to *implement* rather than make or win converts for policy. Its most important role in this respect has been to cope with inconsistencies between enterprise production targets and available inputs caused by incoherent economic plans. (This is why top positions in the party apparatus, at least in the Russian Republic, have generally been staffed with engineers.) The real role of the army of "ideological" functionaries in the party has been not so much to *argue* the party's position and build party "legitimacy," as to communicate what the party leadership's position is on various issues. The problem of party "authority" until recently was not particularly germane, because there was no political competition, few people were prepared to challenge the party line, and those who did were handled by a different bureaucracy—the KGB. ~~(C NF)~~

Gorbachev appears to believe that the party should continue to integrate the entire Soviet system ("perform its vanguard role"). He has an altogether different vision, however, of how this function is to be performed. In his view, the party should abandon its de facto executive and legislative activity. It should:

- Cede rulemaking power to the soviets and other state or public organizations.
- Stop issuing binding orders to all other organizations.
- Curtail dictation of personnel appointments through the *nomenklatura* system.
- Remove itself from day-to-day involvement in the implementation of economic plans.

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At the same time, the party should strengthen its "political" role by:

- Serving as a brain trust at all levels to generate appropriate macropolicies.
- Winning authority for the party and its line by force of persuasion in the emerging competitive political arena.
- Influencing elections and personnel appointments in all institutions by cultivating and presenting the "best" candidates.
- Incorporating the interests of all strata of the population through broad external dialogue and internal party democratization. ~~(C-NT)~~

Gorbachev is, in fact, attempting to implement this model. He has weakened the Central Committee Secretariat and may be reaching policy decisions in an informal group outside the Politburo. He has eliminated the branch economic departments in the apparatus—the organizational base for day-to-day party intervention in the economy. He has ordered party officials to exert influence through persuasion rather than command. He has attacked the *nomenklatura* system as prone to error and the perpetuation of mediocrity. He is urging party leaders at all levels not to wait for instructions from above but to develop their own "action programs." He is demanding that all party officials emulate his own example and carry the case for *perestroika* to the population through the mass media. He is promoting competitive elections within the party. And he is instigating personnel cuts in the party apparatus and a large-scale turnover of party cadres, to which he attaches great significance. ~~(C-NT)~~

Essentially, Gorbachev's program implies the liquidation of the CPSU as it has existed and the creation of an organization that is new in its functions, structure, personnel, and relationships with other parts of the Soviet system. Through this transformation the party is to regain both the will and the legitimacy to rule. Were such a metamorphosis to succeed, it could in principle create an integrating vehicle compatible with democratized soviets and other elective organizations. It would also clear away resistance in the party apparatus to *perestroika*. ~~(C-NT)~~

The odds against the desired transformation of the party, nonetheless, are formidable. Exhortation to exert influence through persuasion is unlikely to give the party enough moral authority to compensate for loss of the operational power to issue orders and dictate personnel appointments. It is questionable whether purging the party apparatus will increase its ability to operate in a competitive political environment as much as Gorbachev seems to hope. *Pravda* complained editorially in June that "a considerable part of the party apparatus is in total disarray and is unable to find its bearings in the new situation." And it is difficult to identify, beyond presumed psychic rewards, what the payoffs are to be that will motivate party officials. Rather, the odds seem much higher that Gorbachev's strategy will simply undermine the real-life CPSU, weaken its ability to bring order to a still nonmarketized economy, increase uncertainty as to its role, further demoralize both cadres and rank-and-file members, and intensify the already high level of anger of the apparatus toward Gorbachev. ~~(C-NT)~~

Empowering Democratized Soviets

Gorbachev is banking heavily on the soviets being able in a timely and effective manner to fill the vacuum created by his redefinition of the party's role. What he seeks is a mechanism that enjoys legitimacy, is sensitive to pressures from below, is able to reconcile conflicting popular interests and demands, is capable of controlling officialdom, and is nevertheless responsive at least in general terms to party guidance. With the election of the new Congress of People's Deputies and formation of the Supreme Soviet, the first meeting of the Congress in June and subsequent session of the Supreme Soviet, and the upcoming elections to local soviets in the fall, Gorbachev has launched Soviet politics on a promising but perilous path. ~~(C-NT)~~

We should not exclude the possibility that this venture will eventually succeed. Much of the brief experience of the Congress and new Supreme Soviet—especially

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the emergence of a new corps of middle-class politicians, the frank discussion of formerly taboo topics, the role of deputies in helping to solve the miners' strikes, and the rejection of some nominees to the Council of Ministers—provides grounds for hope. But the politicization of the Soviet population, the urgency of public needs, and the radicalization of demands made by the rapidly growing number of "informal" groups will impose severe strains on these new institutions. Tolerance and compromise are not yet part of the political culture of either the new Soviet electorate or the new deputies. Political competition in this arena, contrary to Gorbachev's calculations, may work against the establishment of market socialism. Conflicts generated over ethnic issues will be bitter. A "hardhat workers" politics of unpredictable orientation may emerge. The new institutions currently lack most of the operational attributes of functioning democratic parliaments that help them to conduct business and deal with such pressures, and these can develop only with time. (C-INT)

Whether multiparty political competition will emerge as the new soviets evolve is a critical issue. With the formation of the "Interregional Group" of deputies, the collective action of Baltic deputies, and the caucusing of "workers' deputies," organized *opposition* has already arrived in the Supreme Soviet. Some participants in these groups visualize the rapid emergence of multiparty politics. And several groups outside the Supreme Soviet—for example, the Christian Democratic Union, the Social Democratic Association, the Democratic Perestroika Club, and the various ethnic fronts—are already organizing as political parties, or plan to do so. (S-INT NC OC)

It is conceivable that Gorbachev privately welcomes the prospective emergence of multiparty competition as a long-term stabilizer of the USSR's new mass politics. In this scenario, he might hope simply to preserve the Communist Party's de jure monopoly long enough to effect the transfer of real power from the CPSU to the Supreme Soviet, at which point traditionalists in the party would be unable to prevent recognition of a multiparty fait accompli. It is more likely, however, that—as he told Hungarian leaders Nyers and Grosz in July—he is prepared to accept multiparty politics in Hungary but does not want such

a system established in the USSR. Publicly, he has repeatedly criticized advocacy of multipartyism in the Soviet Union—arguing that this would multiply cleavages in an already "complex" society and, most important, would promote ethnic strife. In this scenario, he would be aware that his invitation to informal groups to participate in parliamentary politics could lead to the formation of other parties, as Nikolay Ryzhkov and others have warned, but planned to maintain the CPSU's preponderant role by somehow taming or co-opting the main opposition groups. (C-INT)

In the meantime, as Ryzhkov has also observed, the creation of the new activist Supreme Soviet headed by Gorbachev introduces an element of profound ambiguity in the distribution of power and authority between the CPSU Central Committee and Politburo, the Supreme Soviet, and the Council of Ministers at the very top of the Soviet system. When local elections are held and empowered soviets formed at all lower levels, this ambiguity will spread throughout the system, potentially setting the stage for a generalized "constitutional" crisis. Large numbers of party secretaries are likely to be defeated in these elections. To the extent that election by the populace to the respective soviet is seen to be a necessary validation of a party secretary's tenure of office, political reform will sharply heighten anxiety and promote cleavage within the party apparatus. Gorbachev probably hopes to use the crisis resulting from elections to the soviets to redefine formally, both constitutionally and through revision of the party rules, the division of labor and respective powers of party, state, and government organs. (C-INT)

Implications

Stability

Gorbachev's vision of a liberal Communist future seeks to reconcile satisfaction of ethnic demands with preservation of the Soviet multinational state, piecemeal introduction of marketization with "socialism," and democratization with maintenance of the Communist Party's "vanguard role." Minimizing bloodshed has been central to his tactics. His desire to avoid

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major confrontation with the population and to find "political" solutions to problems is reflected in his encouragement of politicization of the population and tolerance of social turbulence; his readiness to interpret hostility toward the Communist Party and the Soviet system as a product simply of failure by the regime to eradicate past "mistakes"; his propensity to ignore ideological "provocation"; his optimism about reaching the "correct" solutions to problems through rational calculation, dialogue, and compromise; and his disinclination to use force or administrative pressure. (C-11F)

These qualities are reflected in the gambles discussed in this paper, which in turn are generating major problems:

- In the *nationality* arena, *glasnost* and Gorbachev's gamble on defusing ethnic grievances and achieving a more voluntary federative union through dialogue is activating passions on all sides, stimulating a serious secessionist challenge, and fueling an imperial backlash.
- In the *economic* arena, Gorbachev's gamble on postponement of price reform, a crash consumption program, and selective pursuit of certain structural changes has placed real marketization on hold, mortgaged its introduction to a financial stabilization program that is more likely than not to fail, possibly compromised its eventual success with strictures against private economic activity, and set the stage for continued corruption and protracted economic crisis.
- In the *political* arena, Gorbachev's gamble on reconstituting the Communist Party along lines that have no parallel in single-party (or multiparty) systems elsewhere is seriously weakening the central existing mechanism for societal integration in the USSR, while the gamble on instituting guided democracy through the soviets is likely to impose large new strains on the regime sooner than it provides an effective means for dealing with them.

Gorbachev has no easy options, and other gambles would have produced other problems. Wherever those problems might have led, the set of problems Gorbachev has in fact fostered is likely to lead in the foreseeable future to major instability in the USSR. (C-11F)

So far, neither the rioting, nor the communal violence, nor the demonstrations that have occurred in the non-Russian republics have compelled Gorbachev to resort to more than limited doses of armed repression. The most violent conflicts have largely not involved natives versus Russians. However, with the escalation of ethnic assertiveness generally since 1988, the radicalization of Baltic demands, and the growth of Russian nationalist sentiment, the stage is being set for major Russian/non-Russian conflict. Potentially, the most explosive near-term source of such combustion is the backlash of large numbers of Russians living in the borderlands to native attempts to assure priority of the local language, residency requirements for political participation, and progress toward autonomy or even independence. The fears now displayed among Russians in the Baltic republics and Moldavia could lead spontaneously to confrontations that would require large-scale intervention by Moscow. But they also provide fertile soil for provocation by Gorbachev's opponents designed to force broad intervention that would undermine *perestroika*. At some point, even in the absence of settler-instigated conflict, native assertiveness is likely to precipitate confrontation with the Center, however self-disciplined the non-Russians may be. One factor that could lead to such a clash might be Moscow's determination not to allow relaxation of controls in the Baltic republics to set a precedent for the Ukraine. (C-11F)

Gorbachev has sought to replace Brezhnev's tacit understanding with the population, which essentially provided a guaranteed minimum living standard and social security benefits in return for political passivity, with a new "social contract" that would provide greater economic opportunity and political participation in exchange for harder work and less economic security. But his economic gamble is unlikely to generate the sustained growth in material rewards necessary to support such a transition. At best, the policy will stabilize a deteriorating situation; if it fails, the result could be hyperinflation and the emergence of a barter economy. And the policy still leaves the economy in a state of protracted vulnerability to at least three generators of an economic downturn that

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would further enhance the likelihood of street politics: the incoherent current blend of "plan" and "market"; the possible chain reaction of producer-good supply shortages noted above; and—not least—major strike activity. (C NF)

Gorbachev was able in July to deflect blame for the miners' strikes and turn them to his own immediate advantage, but only by granting major concessions to the miners that will increase the deficit and may well encourage more groups to use ultimatum politics.

Heady from their success, organized miners are spearheading formation of a mass labor movement, which might develop widespread support among workers who want the security of the old social contract as well as the improved quality of life *perestroika* promises. (S NF NC OC)

Glasnost, the evaporation of fear of authority, and Gorbachev's attempt to mobilize popular pressure against bureaucratic vested interests have—in combination with consumer dissatisfaction and diffuse public anger toward the Establishment—tapped latent impulses and energized political moods at the base of Soviet society. The old "transmission belts"—especially the trade unions and *Komsomol*—that integrated the "masses" with the regime have, in the new competitive environment, become increasingly irrelevant: Elections to the Congress of People's Deputies revealed how little confidence the party apparatus itself enjoys among the population at large. Gorbachev's gamble on radically restructuring Soviet political institutions is further weakening the old mechanisms that repressed popular unhappiness. (C NF)

Opinion polls and abundant evidence from other sources suggest that the public's priority concern is improving the standard of living. To the extent that the new Supreme Soviet and local soviets act as vehicles for absorbing mass unrest, they are likely to press for welfare spending, wage increases, subsidies for unprofitable enterprises, delay of price reform, and other measures that will increase the difficulty of moving toward effective marketization. In this sense, the phasing in of political reform before economic reform may have severe long-term costs. (C NF)

But political competition encouraged by reform is giving voice to other concerns as well: about public order, crime, loss of control in the borderlands, environmental destruction, erosion of traditional values, elite corruption, and profiteering by cooperatives. This volatile mixture of grievances could, under conditions of continuing consumer deprivation, lead to outbreaks of anarchic violence or provide a social base for attempts by political elites to reverse Gorbachev's policies. (C NF)

Political Outcomes

Gorbachev's gamble on a protracted transition to marketization, unless modified, is likely to delay serious economic revitalization indefinitely and create conditions of chronic instability irrespective of the destabilizing impact of ethnic conflict. Under these conditions, governing the Soviet Union will become progressively more difficult. Yet the fragmentation of political power currently under way will probably continue. Within the party, divisions now visible pitting natives against Russians within the republics, republic party organizations against other republic party organizations and against the Center, RSFSR oblast party organizations against the Central Committee apparatus, and liberal against traditionalist factions, will expand. And Gorbachev's personal authority within the party and among the population at large will probably continue to decline, despite his political victory at the September plenum of the Central Committee. (C NF)

Some observers have speculated that anarchy will be the end result of these developments. This is a highly unlikely outcome: if "anarchy" does occur, it will simply mark the transition from one set of political arrangements to another. What is likely is that instability will force the Soviet leadership to choose from an array of crackdown measures, ranging from stronger threats, to new restrictions on freedom of speech and assembly, to bans on strikes, to personnel purges, to exertion of economic pressures, to police or military intimidation, to deployment of larger and more aggressive security forces, to declaration of states of emergency, to imposition of martial law. Choices here

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will hinge partly on how threatening to regime survival conditions of instability are judged to be, partly on how effective in suppressing disorder given types of crackdown are predicted to be, and partly on how counterproductive the crackdown measures are held to be in terms of frustrating attainment of other key objectives. (C/NF)

The record suggests that Gorbachev has a high tolerance for disorder, will seek as long as possible to find compromise solutions, and, when decisive action becomes necessary, will attempt to select measures at the lower end of the crackdown scale. He seems to fear that bloodshed resulting from a crackdown would seriously exacerbate conflict situations; he probably has not been impressed by the efficacy of force applied in Central Asia and the Caucasus; and he must fear the consequences for *perestroika* and his foreign policy of a broad and extended resort to armed might. (C/NF)



A major escalation of repression, especially if it involved the imposition of martial law, could well pose the question of who should lead the USSR. Currently there is much speculation in Moscow about martial law, the acquisition by Gorbachev of unrestrained power, coups, and military takeovers. Gorbachev might be inclined to adopt a broad view of his prerogatives as head of state, and perhaps even exercise limited emergency powers in an effort to advance *perestroika*. He would be willing to escalate coercion somewhat to maintain order and isolate nationalist or other "extremists." At the September 1989 plenum of the Central Committee he condemned "extremist rallies that provoke interethnic clashes and terrorize and intimidate people of other nationalities," and

declared that "where a threat to the safety and life of people arises, we will move decisively using the full force of Soviet laws." He also observed, with respect to Nagorno-Karabakh, that "we stand before the need to take resolute measures; we cannot allow anarchy, let alone bloodshed." (C/NF)

Yet it is highly doubtful that Gorbachev would abandon his reform program and his natural constituency by sanctioning indiscriminate violence, or engage in a bid to seize dictatorial power through an alliance with his political enemies. It is possible, however, that he might choose to resign rather than assume responsibility for a crackdown involving a major imposition of martial law. In his conversation with the Hungarians noted above, Gorbachev seemed to imply that he would have resigned rather than order force to be used against the strikers. And he appeared to be dropping a similar hint in a speech he delivered more recently in Leningrad. Naturally, he could also justify retaining office (if he were indeed inclined to resign) on "lesser evil" grounds. (C/NF)

In the event that Gorbachev remains in power, his resort to force is likely to be limited, and instability will not easily deflect processes that appear to be heading toward further democratization of the political order, some form of multipartyism, and a loosening (or, in the Baltic case, even a breakup) of the Soviet multinational empire—provided Gorbachev can avoid sharp political polarization and achieve some reinstitutionalization of political integration through the soviets. If there is financial stabilization and marketization, there might be high instability in the near term (two to five years) but a course could be set toward long-term (10 to 25 years) social equilibrium. Without financial stabilization and marketization (which are now in serious jeopardy), there would be rising instability in the near-to-medium term, high instability in the long term, and likely movement of the Soviet system toward revolution, a hard-right takeover, or what has been termed "Ottomanization"—a slow process of imperial decline with unplanned piecemeal emancipation of constituent entities in a context of growing relative backwardness of the whole in relation to the capitalist West. (C/NF)

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The trend toward liberalization and imperial dissolution is perceived as a clear and present danger by some members of the Soviet political elite, who are shocked by what they perceive as a breakdown of social discipline and loss of regime control. Their anxiety, fear, and anger could still crystalize in an attempted coup, legal removal of Gorbachev, or even assassination. Judging by what is being said publicly by Gorbachev's critics in the apparat, as well as in intelligence reporting, a traditionalist restoration would not be simply a throwback to the Brezhnev regime. It would accept the need for significant change, including reductions in defense spending and decentralization of management, but would attempt to "draw the line" in many areas—especially democratization of the party and government, the media, the conduct of "informal" groups, and expression of "nationalist" views—in which Gorbachev's liberalism is seen as outrageous. Although the odds are high that a traditionalist regime would increase restrictions on private entrepreneurial activity and marketization, it is not altogether inconceivable—depending on who was in charge—that such a leadership might take advantage of limits on public expression to move forward vigorously with marketization. Barring this slim possibility, the prognosis for such a regime would be near-term stability but high medium- to long-term instability, leading to Ottomanization or upheaval from below. (C NF)

The length of Gorbachev's tenure is an important variable. In the event that he is not soon overthrown, his gambles on ethnic and political reform are likely to increase the social forces of resistance to an orthodox reaction. Such a development would correspondingly increase the degree of coercion required to "restore order." Those intent on such a course of action might seek to gain support from the military or KGB, or to mobilize elements of the working-class population to back their cause. Political maneuvering to develop and define a mass "workers" movement is already under way. Gorbachev is seeking to enlist the "workers" as a force for *perestroika*. Populist figures such as Boris Yel'tsin may seek to appeal to the welfare-state preferences of the working class. Reactionaries would espouse neofascist slogans designed to tap into the anti-intellectual, anti-Semitic, anticapitalist, xenophobic, Russian nationalist moods that also

exist among many "workers." A successful traditionalist or reactionary restoration, however, would solve neither the economic problems nor the nationality problems, and thus would perpetuate instability—repressed if not open. (C NF)

Implications for the United States

Under any scenario, economic tensions, acute consumer dissatisfaction, labor unrest, and ethnic strife virtually guarantee that the United States will have to deal with a Soviet leadership that faces endemic popular instability. The chances that economic reform will significantly reduce the potential for instability in the foreseeable future are low, and are certainly less than the chances that Gorbachev's own gambles will foster continuing economic stagnation or decline. Gorbachev will maneuver to dampen instability through compromise and to avoid armed confrontation and bloodshed. He may muddle through more successfully than appears likely. But the odds are great nevertheless that labor unrest or ethnic conflict will—perhaps even within the next six months—create strong pressures within the leadership to crack down much harder than it has to date. Gorbachev may well agree to more repression in order to retain power. It is likely, in this context, that an alternative leader would not only initiate more brutal repression than Gorbachev might, but would cite instability as the pretext for a general attack on Gorbachev's political reforms. (C NF)

Moscow's preoccupation with instability is likely for the foreseeable future—regardless of other factors—to prevent a return to the arsenal state economy that generated the fundamental military threat to the West in the period since World War II. The Soviet leadership's focus on internal order in the USSR will probably accelerate the decay of Communist systems and growth of regional instability in Eastern Europe, pointing to the need for post-Yalta arrangements of some kind and confronting the United States with severe foreign policy and strategic challenges. Instability in the USSR will increase uncertainty in the West about proper policies to pursue toward Moscow, reflecting nervousness about Soviet developments but nonchalance about defense, and will impose stress on domestic and alliance decisionmaking. (C NF)

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To cope with the crises that promote instability, Gorbachev needs to transfer more resources from military to consumer needs. From a personal standpoint, he needs to defend himself against charges that he is selling out Soviet security interests and has been seduced by praise from the "class" enemy. Thus, he needs demonstrable results from the arms talks that will permit him to argue that the external "threat" has receded even further. Likewise, he needs trade and technology transfer from the West to overcome bottlenecks in the Soviet economy. Obviously, he does not need Western actions that call into question the efficacy of "New Thinking" in foreign policy, or that could be interpreted as challenging Soviet security interests globally, in Eastern Europe, or internally, or of "taking advantage" of Soviet internal instability. (C/NF)

The chances that Gorbachev will successfully overcome the dilemmas (many of his own making) that confront him are—over the long term—doubtful at best. But the process of pluralistic forces taking root in Soviet society strengthens the rule of law, builds constraints on the exercise of power, and fosters resistance to any turnaround in military spending and to reinvigoration of an expansionist foreign policy—which, as argued above, will be strongly inhibited in any event by the insistent demands of consumption and the civilian sector. This process, and the deterrence of a militantly reactionary restoration that might attempt to bring about a basic shift in the Soviet Union's foreign posture, benefits greatly from each year's prolongation of Gorbachev's rule. (C/NF)

A key weakness in Gorbachev's strategy that will perpetuate instability is its hesitant approach to marketization and its unwillingness to face up to the necessity of real privatization of ownership of capital stock and land. Soviet leaders from Gorbachev down are, at the moment, uniquely open to contact with the West. Serious private Western dialogue with them and their advisers on economic theory could influence their thinking. Reduction of instability over the long term requires the steady extension of a law-based private sector in the Soviet economy. (C/NF)

Harsh repression of labor unrest or of food riots in Russian cities are certainly contingencies that could confront US policymakers with the need to respond. But instability provoked by Gorbachev's gambles is likely to present its severest challenge to US policymaking through a crackdown of some sort in the ethnic arena—probably not in response to communal violence, but in the form of intervention to suppress Russian/native clashes or the drive of non-Russians for greater autonomy. Such a crackdown is most likely in the Baltic region but could also come in the Caucasus, Moldavia, or—down the road—even the Ukraine. (C/NF)

Gorbachev has said he wants to create a constitutionally structured federative union based on the consent of the constituent republics. Movement away from the heretofore existing situation toward such a goal would in general be positive from the US standpoint. However, Gorbachev is not interested in creating a framework for weak confederation or dissolution of the USSR, nor would he be able to marshal political support within the elite for such an outcome; yet this is precisely what acceptance of the more radical Baltic demands would imply. The new draft CPSU platform on nationality policy hints at the acceptability of a regionally differentiated approach to Soviet federalism. It is possible that Gorbachev may be prepared to broker a special status for the Baltic republics, and this could incorporate a potential for evolution toward still greater autonomy. A wide range of configurations of "autonomy" or "independence" is conceivable. In such a context the Soviets might be interested at some point in discussing with Washington their regional security concerns, which would probably bear heavily on such a decision. (C/NF)

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**3. NIE 11-18-89, November 1989, *The Soviet System in Crisis:
Prospects for the Next Two Years***



Director of
Central
Intelligence

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The Soviet System in Crisis: Prospects for the Next Two Years

National Intelligence Estimate

*This National Intelligence Estimate represents
the views of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*

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NIE 11-18-89
November 1989
FORM 100

3. (Continued)



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NIE 11-18-89

The Soviet System in Crisis: Prospects for the Next Two Years ~~(CONF)~~

*Information available as of 21 November 1989 was used
in the preparation of this National Intelligence Estimate.*

*The following intelligence organizations participated
in the preparation of this Estimate:*

The Central Intelligence Agency
The Defense Intelligence Agency
The National Security Agency
The Bureau of Intelligence and Research,
Department of State

also participating:

The Deputy Chief of Staff for Intelligence,
Department of the Army
The Director of Naval Intelligence,
Department of the Navy
The Assistant Chief of Staff, Intelligence,
Department of the Air Force
The Director of Intelligence,
Headquarters, Marine Corps

*This Estimate was approved for publication by the
National Foreign Intelligence Board.*

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November 1989

**The Soviet System in Crisis:
Prospects for the Next
Two Years (C NF)**

- *The Soviet domestic crisis will continue beyond the two years of this Estimate regardless of the policies the regime pursues. The regime will be preoccupied with domestic problems for years to come, will want to keep tensions with the United States low, and will probably still pursue agreements that reduce military competition and make resource trade-offs easier.* ~~(S NF)~~
- *Despite the enormous problems he faces, Gorbachev's position in the leadership appears relatively secure, and he has increased power and political room to cope with the crisis.* ~~(S NF)~~
- *There will be greater effort to define the limits of political change, a tougher approach on ethnic issues, and some retrenchment in media policy; but the process of political liberalization will expand with the legislature and independent political groups increasing in power at party expense.* ~~(S NF)~~
- *The regime will concentrate on stabilizing the economy and, while pulling back on some reforms, will push for others designed to enlarge the role of the market and private enterprise.* ~~(S NF)~~
- *Despite these efforts, we expect little improvement—and possibly a decline—in economic performance as well as further increase in domestic turmoil. Of several conceivable scenarios:*
 - *Community analysts consider it most likely that the regime will maintain the present course, intensifying reform while making some retreats.*
 - *In a less likely scenario that all analysts believe is a possibility, the political turmoil and economic decline will become unmanageable and lead to a repressive crackdown, effectively ending any serious reform effort. (The CIA's Deputy Director for Intelligence disagrees with both scenarios. See pages vii and 18.)* ~~(S NF)~~

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Figure 1. President Gorbachev:
trying to cope with the crisis.
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Key Judgments

The crisis, precipitated by long-simmering problems and Gorbachev's policies to address them, will continue over the next two years and beyond and could threaten the system's viability:

- Ethnic problems are endemic: conflict between the center and regions will increase as will interethnic strife, and the regime can at best hope to manage and cope with these problems, not resolve them.
- Economic ills are deeply rooted in the system, and efforts to reform it will be slowed by the priority given to stabilizing the economy. ~~(S-NF)~~

At the same time changes in the Soviet leadership during the last year have made Gorbachev's position relatively secure over the next two years and portend a more radical approach to addressing the nation's daunting problems. We believe:

- Gorbachev's power has been significantly enhanced with the weakening of the leadership's orthodox wing and the development of a second power base in the legislature.
- The coming local and republic legislative elections and the party congress next October will probably further undermine the role of the party apparatus, increase the power of the legislature in decisionmaking, and bring a de facto multiparty system to some republics.
- More stringent measures—possibly including some retail price increases and a domestic currency devaluation—are likely to be imposed as part of the current economic stabilization program. Although the need to stabilize the economy has slowed the economic reform effort, we expect to see the introduction of a number of controversial measures—including a redefinition of property rights, a new taxation system, and antitrust legislation—that are designed to enlarge the role of the free market and private enterprise.
- To pursue this course and arrest the growing fear of anarchy in the country, Gorbachev will try to rein in somewhat the now freewheeling Soviet press and be tougher in defining the boundaries of the political and economic autonomy for the country's minority nationalities; he already has and will continue to use repressive measures *if necessary* to control communal violence or prevent secession. ~~(S-NF)~~

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In view of the continuing turmoil, whether Gorbachev can maintain a reformist course with some tactical retrenchment is uncertain and open to considerable debate. The next two years will undoubtedly be one of the most tumultuous periods in Soviet history. ~~(S/NF)~~

Tangible benefits from *perestroyka* will be relatively few, although intangibles (greater freedom and religious toleration) will be more apparent. Overly ambitious targets for the production of consumer goods are unlikely to be met. Labor strikes are certain. The enhanced role of the legislature will make needed austerity measures more difficult to pursue and likely compromises will reduce economic effectiveness. ~~(S/NF)~~

Under these conditions, several scenarios are in the realm of possibility, but two are considered to be much more likely than the others. Most Community analysts hold the view that *a continuation and intensification of the current course is most likely* and believe that, despite the obvious difficulties, the turmoil will be manageable without the need for repressive measures so pervasive that the reform process is derailed:

- The politicization of the populace along with the expanding authority of the legislature are changing the system, giving political reform a broader and deeper base, and making it much more difficult and costly to turn back the clock.
- Although ethnic assertiveness will continue and Baltic peoples will strive for self-determination, the drive for secession will probably be blunted in this period by the regime's more sophisticated use of concessions and warnings and the desire of Baltic leaders to negotiate rather than confront.
- As difficult as the economic situation will be, the regime probably can prevent the supplies of food and consumer goods from declining to the point of provoking large-scale unrest. ~~(S/NF)~~

In a less likely scenario that all accept as a possibility, the ongoing turmoil will get only worse and lead the regime, with or without Gorbachev, *to use massive force to hold the country together and save the regime*:

- Democratization will accelerate system fragmentation and make it impossible to take necessary austerity and economic reform measures.
- An exacerbation of supply problems—by an upsurge in strike activity, transportation bottlenecks, or severe weather—could increase shortages and lead to social upheaval.

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- While trying to avoid confrontation, the interests of the Baltic peoples and Moscow are bound to clash dramatically, leading to much harsher measures by the center to regain control. ~~(S/NF)~~

Events in Eastern Europe are certain to play a role in determining which scenario the USSR follows in the next two years. As long as the transformations in Eastern Europe do not spiral out of control, they will reinforce the trend toward radical reform in the Soviet Union. In the unlikely event that Moscow deems it necessary to use Soviet troops to restore order and prevent the disintegration of the Warsaw Pact, *perestroika* in the USSR would be dealt a serious, if not fatal, blow. ~~(S/NF)~~

Either scenario points toward the continuation of current foreign and security policies, at least for the two years of this Estimate. Gorbachev will still push hard for various arms control agreements. Eastern Europe will continue to have heretofore unthinkable leeway to democratize, effectively changing the Warsaw Pact into more of a political alliance than a military one. Even if a crackdown occurred under Gorbachev or another leader, the preoccupation with internal problems would be paramount, the desire to avoid increased tensions high, and the effort to shift resources toward consumption strong. A different regime would not, however, be as inclined to make major concessions to achieve various arms control agreements or be as accommodating to centrifugal trends in Eastern Europe. ~~(S/NF)~~

Alternative View

The CIA's Deputy Director for Intelligence believes that the Estimate does not adequately capture the likely scope of change in the USSR over the next two years. ~~(S/NF)~~

Assuming Gorbachev holds on to power and refrains from repression, the next two years are likely to bring a significant progression toward a pluralist—albeit chaotic—democratic system, accompanied by a higher degree of political instability, social upheaval, and interethnic conflict than this Estimate judges probable. In these circumstances, we believe there is a significant chance that Gorbachev, during the period of this Estimate, will progressively lose control of events. The personal political strength he has accumulated is likely to erode, and his political position will be severely tested. ~~(S/NF)~~

The essence of the Soviet crisis is that neither the political system that Gorbachev is attempting to change nor the emergent system he is fostering is likely to cope effectively with newly mobilized popular demands and the deepening economic crisis. ~~(S/NF)~~

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Gorbachev's Politburo Today

Yakovlev. Gorbachev protege . . . strong proponent of radical reform. Frequent target of criticism by party conservatives.

Shevardnadze. One of Gorbachev's strongest supporters on both domestic and foreign policy . . . unorthodox statements challenging ideological underpinnings of foreign policy have aroused objections from Ligachev.

Ryzhkov. Has played a leading role in economic reform . . . more moderate on political and social issues . . . criticized Gorbachev in July for neglecting party duties but appears to be personally close . . . clashes with Ligachev reported.

Medvedev. Ideology secretary in forefront of "new thinking" on foreign policy and radical economic reform . . . more cautious on cultural issues . . . also target of orthodox critics.

Slyun'kov. Economics secretary who has been hedging on radical restructuring . . . some reports suggest not completely in Gorbachev's camp.

Maslyukov. First Deputy Premier and Gosplan chairman—a moderate on reform . . . like his patron Ryzhkov, has better appreciation than Gorbachev of difficulties of translating economic theory into practice.

Zaykov. Secretary and, since 21 November 1989, First Deputy Chairman of the Defense Council . . . takes a traditionalist stand on some key reform issues . . . may have lost clout when failed to derail Yel'tsin election.

Vorotnikov. Only other Politburo member appointed before Gorbachev took power . . . increasingly critical of political pluralism and radical economic measures . . . only other full member in Supreme Soviet.

Kryuchkov. KGB chief who reportedly has close personal ties to Gorbachev . . . echoed perestroika themes in 1989 Revolution Day speech but urged restraint . . . has publicly called for legislative oversight of KGB.

Ligachev. With "second secretary" powers now removed, less able to hinder Gorbachev's programs . . . views political reform as dangerous, disruptive, unnecessary . . . opponents of reform may look to him as spokesman . . . questions about corruption still alive.

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Discussion¹

The Soviet system is in crisis. While noting the potential for turmoil in [REDACTED] we underestimated how quickly it would develop. The roots of the crisis run deep into the nature of the Soviet state and Russian history and have been nourished by decades of official neglect, corruption, and ineptitude. But the public manifestations—the strikes, demonstrations, and other challenges to authority—are a direct result of Gorbachev's effort to restructure the system. The turmoil that these developments have brought to the fore will continue and probably deepen. (S-NF)

This increased popular assertiveness is in one sense a measure of Gorbachev's success in destroying elements of the Stalinist system. The pace and extent of this change have exceeded even our relatively bullish forecast of two years ago; indeed, the new legislature is the beginning of systemic change. His political reforms have brought a reduction in regime repression, an expansion of civil liberties, greater tolerance of religious beliefs, a broader range of permissible public discussion, and an opportunity for previously unrepresented groups to become a part of the system. (S-NF)

Gorbachev's policies are breaking the management and control mechanisms of the old regime, however, before new ones are ready to assume these tasks. The effort to create a new political culture and institutions—capable of handling the flood of demands unleashed by Gorbachev—is still in its infancy. (S-NF)

His policies, moreover, have yet to alleviate—and in some respects have worsened—many of the social and economic problems he inherited. His efforts to manage the USSR's restive ethnic minorities have not halted their demands for greater independence from



Moscow; indeed, the effort to accommodate them has led to a strong push for independence in the Baltic—a step that Moscow will not allow but may not be able to stop without repression. And his economic policies have exacerbated serious shortages of consumer goods and services, guaranteeing a continuation of popular discontent. Not surprisingly, there is widespread pessimism in the country about the ability of the regime to overcome these problems. (S-NF)

Leadership Showdown

During the past year this turmoil led to an increasingly open conflict within the Politburo:

- Party secretaries Ligachev and Chebrikov among others seemed convinced that *glasnost* and political reform in general had promoted disorder in the country and were destroying the leadership role of the Communist Party. These leaders made it increasingly clear that significant retrenchment was required to save the party and the country.
- Gorbachev and others rejected reliance on traditional remedies and argued that even more radical changes in the party and its policies were necessary to cope with the crisis and restore the party's authority. (S-NF)

That conflict led Gorbachev to move decisively against the Politburo's orthodox wing at the Central Committee plenum in September 1989, removing five full and candidate Politburo members and replacing them with moderate and reformist supporters of *perestroika*. These changes have significantly altered the balance of power in the Politburo and effectively shattered its orthodox faction (see inset). The plenum's approval of Gorbachev's proposal to convene the 28th Party Congress in October 1990—four months

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earlier than mandated—also allowed him to accelerate his plans to bring new blood into the Central Committee, which has been another source of resistance to his reforms. (S NF)

Gorbachev's success at the plenum was the latest in a series of moves that have significantly strengthened his political position in the leadership, including:

- The Central Committee plenum in September 1988, when he launched a personnel and organizational shakeup of a magnitude not seen since Khrushchev's time.
- The April 1989 plenum, when he succeeded in purging about 20 percent of the Central Committee's members—"dead souls" who no longer held the jobs entitling them to membership—and promoting 24 candidates, mostly of a reformist stripe.
- His acquisition of a newly strengthened presidency in May 1989 followed by a streamlining of the government bureaucracy that had been resisting his economic reforms (see inset).

The cumulative effect of these moves has been to sharply reduce the threat posed by Gorbachev's opponents. As a result, we believe his position in the leadership is relatively secure for the next two years, although an assassination attempt by an individual against him cannot be ruled out. (S NF)

Can the Turmoil Be Managed?

Even with his power and authority enhanced, however, Gorbachev has not yet shown that he has a strategy for dealing with a host of daunting problems his policies have created that defy easy solution and that by his own admission threaten *perestroika*. On the one hand, he faces powerful pressures for more far-reaching changes:

- The March 1989 elections revealed previously unsuspected grassroots support for political reform and a rejection of the party establishment that came as a shock to entrenched party bureaucrats as well as foreign analysts; an even greater repudiation is likely in the coming legislative elections at the republic and local levels, shifting authority further from party control toward the new legislative system.

An Upgraded Presidency

Gorbachev's clearest personal political gain from the reform of the state system is a strengthened presidency. Under the previous arrangement, the post was largely ceremonial. Gorbachev's scheme makes the president an executive leader of the full Supreme Soviet with constitutional authority in both domestic and foreign affairs and gives him power to:

- Nominate appointees to top-level government jobs, including the posts of premier, prosecutor general, and Supreme Court chairman.
- Recommend appointments to the new Constitutional Oversight Committee.
- Chair the Defense Council.
- Conduct negotiations and sign international treaties. (S NF)

The new president is accountable to both the Congress of People's Deputies and the Supreme Soviet, although only the Congress can recall him. There is no legal requirement that the general secretary serve as president, so Gorbachev's removal from the top party spot would not automatically cost him the leading state position. Although the Politburo undoubtedly would try to deprive him of that power base as well, the Supreme Soviet could prevent such a move. (S NF)

As the new legislature has gained authority and become increasingly active in formulating policy, the presidency has taken on added importance and given Gorbachev a substantial advantage over most of his Politburo colleagues who have minimal formal legislative responsibility. Both orthodox party members and reformers fear that this upgrading of the presidency could lead to one-man rule. Party traditionalists fear this will violate the tradition of collective leadership that gives them at least a limited ability to keep Gorbachev's reforms in check, and the reformers are more concerned about what might happen if someone other than Gorbachev held the job. (S NF)

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3. (Continued)

~~Secret~~**Interlocking Directorate of the Soviet Leadership,
November 1989**

Party	Other Post	Government
Politburo	Secretariat	Council of Ministers Supreme Soviet
Full Member		
Gorbachev (elected October 1980)	General Secretary	Chairman (president)
Ligachev (elected April 1985)	Chairman, Agriculture Commission	
Ryzhkov (elected April 1985)		Chairman (prime minister)
Maslyukov (elected September 1989)		Gosplan chief
Shevardnadze (elected July 1985)		Minister of Foreign Affairs
Medvedev (elected September 1988)	Chairman, Ideological Commission	
Vorotnikov (elected December 1983)	President, RSFSR	Member
Zaykov (elected March 1986)	Member	First Deputy Chair- man, Defense Council
Kryuchkov (elected September 1989)		KGB chief
Slyunkov (elected June 1989)	Chairman, Socioeconomic Commission	
Yakovlev (elected June 1989)	Chairman, International Commission	
Candidate member		
Lukyanov (elected September 1988)		First Deputy Chair- man (vice president)
Vlasov (elected September 1988)	Premier, RSFSR	
Biryukova (elected September 1988)		Deputy Premier
Primakov (elected September 1989)		Council of Union Chairman
Razumovskiy (elected February 1988)	Chief, Cadres Commission	
Yazov (elected June 1987)		Minister of Defense
Pugo (elected September 1989)	Party Control Commission	
Secretaries only		
Baklanov (elected February 1988)	Defense Industry	
Stroyev (elected September 1989)	Agriculture	
Manayenkov (elected September 1989)	RSFSR Cadres and Ideology	Member
Usmanov (elected September 1989)	Unknown	
Girenko (elected September 1989)	Unknown	

This table is Unclassified.

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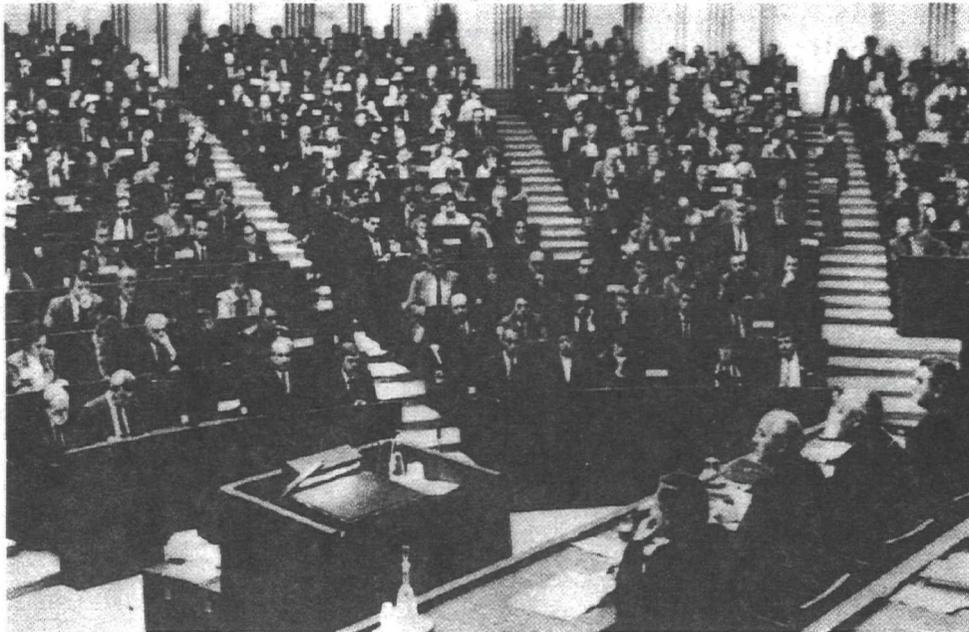


Figure 2. Gorbachev presides over Supreme Soviet—
September 1989. (U)

- The level of ethnic mobilization in the Baltic and Caucasus has significantly increased the pressures for independence and promoted articulation of ethnic demands that are often irreconcilable with one another. Managing these centrifugal threats to the state is now much more difficult and the political and social costs of returning to the old ways of maintaining order much greater.
 - The worsening economic situation has produced mounting popular dissatisfaction and a wave of strikes, intensifying the pressure on the regime to give workers greater control over their enterprises, to reduce the shortages of necessities and adopt more decisive economic policies. The regime so far has not been able to respond effectively to this pressure. (S-NF)
- At the same time, he must deal with a number of strong barriers to change:
- Although reduced in power, an entrenched party and government bureaucracy continues to resist reforms that would lead to increased political accountability, greater “marketization” of the economy, or other changes that would undermine its status and autonomy.
 - Many Soviet citizens regard economic reforms that widen differentiations in wages, increase retail prices, and threaten unemployment as violations of the “social contract.” This has been an important factor in delaying economic reforms that for all their promise would have such unpopular consequences.

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~~Secret~~**Gorbachev's Reform Agenda and the KGB**

General Secretary Gorbachev needs the KGB in a period of political change to ensure his political survival, to monitor the compliance of local elites, and to control burgeoning societal unrest. During the past year, Gorbachev has strengthened his hold on the security service first by transferring then KGB boss Viktor Chebrikov to the Central Committee Secretariat and a year later retiring him. Current KGB Chairman Vladimir Kryuchkov—recently vaulted to full Politburo membership—is a political ally of the General Secretary and has been an outspoken advocate of reform—including parliamentary oversight of the KGB. Chief of the KGB Border Guard Directorate General Matrosov recently discussed his component's budget at a hearing of the Supreme Soviet Defense and Security Committee, and later this fall Kryuchkov will submit the security service's budget to the Supreme Soviet for the first time. ~~(S-INT)~~

Some KGB officials are concerned about the effect of perestroika and glasnost on KGB prestige and on the organization's ability to carry out its mission at a time of growing unrest. ~~(S-INT)~~

The KGB on the whole, however, is apparently satisfied that Gorbachev's reforms do not threaten its prominent position. Despite some "KGB bashing" in the Supreme Soviet and the press, Kryuchkov has been successful in defending many of the KGB's vested interests. Thus far, the KGB has taken fewer cuts in its personnel and prerogatives than either the Ministry of Internal Affairs or the Ministry of Defense. For example, although the Fifth (Antidissident) Directorate has been abolished and the Third Chief (Military Counterintelligence) Directorate has been trimmed, many of their personnel have been assigned to a new department formed to fight organized crime. Moreover, KGB departments in the Caucasus and Central Asia remain active in investigating nationalist extremists—reflecting the leadership's continuing need for the KGB's domestic role to maintain control. ~~(S-INT)~~

- The disorder that accompanies reform—corruption, strikes, civil unrest, inflation, and increased crime—is anathema not only to institutions like the KGB and the military but also to large segments of the general population (see foldout map, figure 10, at the back). An authoritarian and paternalistic culture has instilled in many the belief that the only alternative to a strong hand at the center is anarchy (see inset). ~~(S-INT)~~

As a result of these pressures and the greater latitude for action he has achieved within the Soviet elite, Community analysts now expect Gorbachev to press ahead with a domestic agenda that combines an intensification of political reform and economic stabilization with a tougher approach to party discipline, ethnic extremism, and media policy. Whether he can maintain such a course given the turmoil and

pressures is uncertain and the subject of strong debate in and out of the Intelligence Community. This situation could move in several different directions, but most analysts believe two are much more likely than others: "staying the course" and "a repressive crackdown" (see inset, page 7). ~~(S-INT)~~

Staying the Course

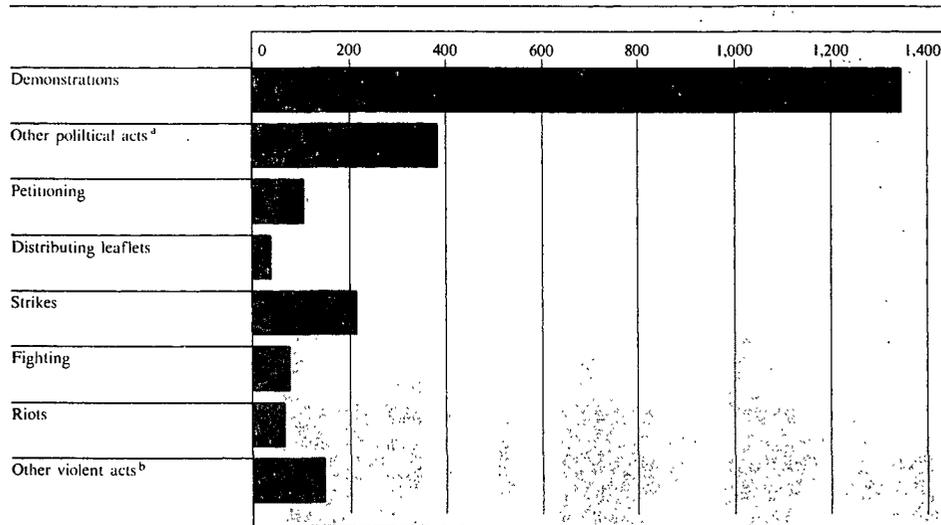
The most likely scenario in the view of Community analysts is that Gorbachev will be able to keep the reform process going and avoid resorting to draconian measures that would roll back the trend toward greater pluralism and democratization. ~~(S-INT)~~

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Figure 3
USSR: Reported Incidents of Unrest by Type,
January 1987-September 1989



^a Includes mass meetings of informal groups not considered demonstrations, hunger strikes, collection of funds for nonofficial functions, unsanctioned religious activity, such as Hare Krishna meetings and mass meetings of Ukrainian Catholics, and so forth.

^b Includes bombings, assassinations, production of homemade weapons, airline hijackings, and attacks against security forces.

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This judgment rests in part on our assessment of Gorbachev, his agenda and his ability. Although lacking a detailed blueprint, he has been enormously successful in using and defining the sense of crisis in the system—in 1985 and now—to drive increasingly radical solutions to Soviet ills. His policies call into question, whether intentionally or not, the role of the Communist Party, its ideology, the Stalinist economic system, and the center's dominance of the regions. As the sense of crisis has mounted, only he in the leadership appears to have the ability to manage the turmoil his own policies have stimulated. At the same time, he is flexible and clever at not getting too far

ahead of what his colleagues can tolerate at a given moment; he has made tactical adjustments and occasional retreats to cope with both political and policy consequences of reform. (S, NP)

Our assessment of the likelihood of this scenario also reflects judgments about the manageability of the reform process and the turmoil it has created. Forces have now been unleashed in the USSR that have a life of their own, weakening the regime's control over events. The turmoil will continue under this or any other scenario. Most Community analysts believe the

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~~Secret~~**Other Possible Outcomes**

Although the Intelligence Community considers the two scenarios presented in this Estimate to be the most likely, three other general scenarios—while far less likely—are at least conceivable:

- **Success story.** The regime could move much more quickly and skillfully on economic stabilization than we anticipate, be far more accommodating on demands for ethnic autonomy, and more receptive to sharing political power with forces outside the Communist Party. Such a scenario would see the economy revive, the "union" enhanced by genuine devolution of substantial political and economic power to national minorities, and a stable transition toward political democracy that did not threaten—as in Poland, Hungary, and East Germany—the continued viability of the Communist Party.
- **Social revolution.** At the opposite end of the spectrum, Gorbachev's concessions to the population, severe weakening of all major regime

institutions, and incompetence in managing the economy could lead to his losing control of the situation. Ethnic violence and separatist demands, increasingly potent challenges to Communist Party rule, and catastrophic economic deterioration could lead to large-scale instability and perhaps social revolution. This could include the breakaway of many non-Russian republics and a prolonged period of civil war.

- **Return to neo-Stalinism.** The threat of imminent social revolution could prompt a coup against Gorbachev that would not only lead to retrenchment but also to the imposition of political repression more severe than during the Brezhnev years. This scenario would involve the massive use of military force to reimpose order. The effort would certainly be bloody and would only postpone—and over time deepen—the systemic crisis, not resolve it. ~~(S-1NF)~~

regime can cope with it and press ahead, haltingly and unevenly at times, with the reform process:

- A more open legislative process with real elections, debate, and votes is becoming institutionalized. The population is becoming more involved and interested, enlarging the constituency favoring change and making it much more difficult to alter course.
- Although strikes and shortages will continue, the regime will be able to maintain supplies, particularly food, at a level sufficient to avoid widespread social disruptions; the population, as it has in the past will grudgingly endure the privations, giving the regime more time to get its economic strategy implemented.

- The combination of regime concessions and warnings have blunted somewhat nationalist demands for outright independence, while the Baltic peoples appear disinclined to force a confrontation over the issue any time soon. ~~(S-1NF)~~

Political Reform. Analysts expect Gorbachev will intensify his reform of political institutions even further over the next two years, as he attempts to improve their capacity to deal with the demands *perestroika* has created. The political reforms mapped out in the summer of 1988 will soon be nearing completion in structural terms. A new Congress of People's Deputies and Supreme Soviet already have been elected. Elections to the republic

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Figure 4. Debate in the Supreme Soviet. Left to right: Chairman of the Council of Nationalities, Nishanov; First Deputy Chairman of the Supreme Soviet, Luk'yanov; Chairman of the Supreme Soviet Gorbachev; Chairman of the Council of the Union, Primakov; and Deputy Chairman of the Council of the Union, Iskakova. (U)

congresses of deputies and local soviets are being held late this year and early next, further drawing the populace into the political process and increasing the pressure on the system to respond. The party congress already set for October 1990 will complete the re-vamping of the party and its Central Committee, shifting the political balance strongly toward a reformist course. ~~(S NF)~~

Despite this progress, the reformers recognize that they have far to go to build a political culture and institutions capable of dealing with the demands reforms have unleashed. They are trying to ensure that the new legislative institutions have a genuine measure of power and that the Soviet people have some real influence in selecting their representatives.

At the same time they want to achieve these objectives while preserving a national single-party system in which much power remains concentrated at the top. Gorbachev seems prepared to give these new institutions a substantial degree of independence and to permit considerable pluralism within them, however, in order to obtain his larger reform objectives. As is already evident, achieving such a balance will be difficult, requiring consistent effort to make the party more inclusive of diverse opinions while reining in those who exceed the limits. ~~(S NF)~~

In addition to strengthening the role of the legislature, we believe Gorbachev will attempt to restore the party's deteriorating position. His speeches and

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actions indicate that he wants the party to shape the reform process rather than be pulled along by it. To do this he intends to use the coming local and republic elections and the party congress to discredit further the opponents of reform and bring more new blood into the apparatus. ~~(S-NF)~~

This reform process will weaken an already beleaguered *nomenklatura* and could destroy it if allowed to continue for much longer. The new blood will align the party more clearly with reform efforts, as it already has in the Baltic, and perhaps give it greater credibility. Such a party would be vastly different from its Leninist predecessor, however, less responsive to Moscow's edicts and more closely tied to its local constituency. Its distinctive claim to rule would be eroded even further as it faced strong competition at the local level from groups (de facto political parties) urging support for their own agendas. Whether intended or not, the reform will, in our view, hasten the ongoing shift of power, legitimacy, and action away from the party to other institutions, particularly the legislatures. ~~(S-NF)~~

We also expect Gorbachev to give new emphasis to his call for a society based on law as part of his effort to strengthen the regime's legitimacy. Actually establishing the rule of law would require steps the regime so far has been reluctant to take: codification and implementation of such ideas as the independence of the judiciary, the subordination of the government to the law, and an emphasis on the freedom of the individual, rather than the individual's obligations to the state. In the "halfway house" Gorbachev is trying to create, we expect coming legal reforms—including new criminal legislation and laws on economic activity and the press—to make steps in those directions but continue to stress the regime's rights over those of its citizens. ~~(S-NF)~~

Nationality Policy. Initially, Gorbachev paid little attention to nationality problems; indeed, he appears to have assumed that reform would not encounter obstacles on this front. As a result, the regime has been struggling ever since to get ahead of the problem. Nationalism has flourished in the more open atmosphere of *glasnost* and public debate. The regime has allowed changes that would have been unthinkable

Gorbachev's Nationalities Policy

To help ease the Soviet Union's nationalities problem, Gorbachev envisions a program that would include:

- The transition of the USSR from a de facto unitary empire to a union with real federative content.
- Constitutional delimitation of the functions of the center and the republics, with a significant increase in the authority allocated to the republics.
- Removal of discriminatory and provocative obstacles to the development of non-Russian languages and cultures.
- Equalization of the rights of all nationalities.
- Integration of the republics within a single unionwide economy, in which the "socialist market" harmonizes the interests of the multiethnic whole with those of its ethnic parts. ~~(S-NF)~~

able a few years ago, but this accommodation has encouraged more demands rather than limited them (see foldout map, figure 11 at the back). ~~(S-NF)~~

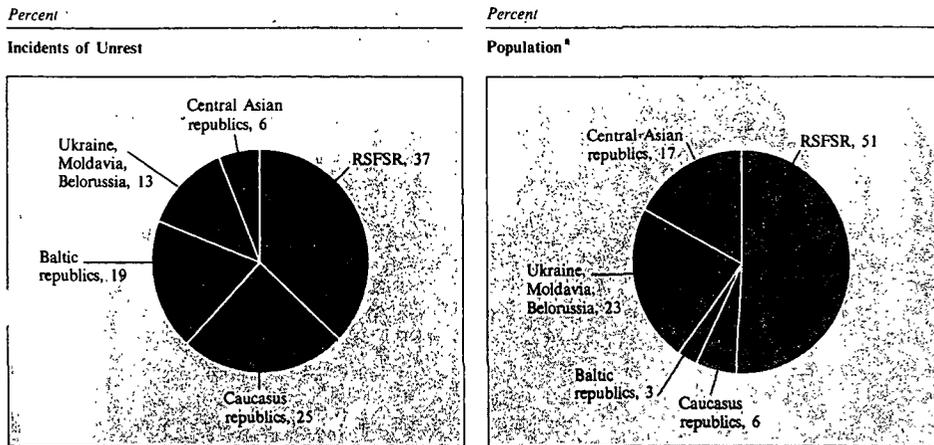
The nationality policy adopted at the September 1989 plenum indicates that Gorbachev's willingness to give the republics greater political and economic autonomy has certain clearly defined limits (see inset). In his speech he affirmed that each nationality had the right of self-determination but noted that this concept was not a "one-time act connected with secession" but the right to develop culturally and economically within the existing state structure. Gorbachev also has ruled out any shifting of borders and rejected the splitting of the Communist Party along ethnic or republic lines. Moreover, his stress on an integrated market and the

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Figure 5
USSR: Distribution of Reported Unrest and of Population
by Republics, January 1987- September 1989



^a Figures from 1989 Census.

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reality of the economic interdependence of the republics appears to be aimed at reining in the growing zeal among nationalists, especially in the Baltic republics, for virtual economic and political independence from Moscow. ~~(S-NF)~~

Community analysts believe Gorbachev is fully prepared to use force, if necessary, to control the kind of interethnic violence that broke out over the disputed territory of Nagorno-Karabakh in the Caucasus; the reestablishment of law and order in such cases would not be incompatible with his reform objectives. On the other hand, most expect him to make every effort to avoid the use of force to quell nationalist demands for political independence in the Baltics—a move that would clearly enforce limits on *glasnost*, democratization and other reforms, and cost him some of the

international goodwill derived from his liberalization and his diplomatic initiatives. ~~(S-NF)~~

The political challenge to Soviet rule is the greatest in the Baltics, where actions in support of eventual secession will continue to test Moscow's patience and tolerance. Most analysts believe there is a decent prospect that the regime's willingness to concede a degree of autonomy unthinkable in the past along with warnings of what is not now possible will blunt immediate demands for secession. Some Baltic nationalists are aware of the dangers of going too far, are looking for compromise, and seem inclined to avoid confrontation. This approach could well postpone a pitched battle over independence for some time. ~~(S-NF)~~

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Even if this fails, we believe the leadership would first exhaust all its political and economic leverage to encourage a nationalist retreat from unacceptable demands before turning to military intervention. For example:

- Central ministries could be directed to exert economic pressure by bargaining over delivery prices or even delaying the delivery of fuel, and blocking foreign financial ventures.
- Moscow might emphasize its disapproval by heightening the visibility of security (MVD and KGB) personnel or military units already present in the Baltics and seal the borders, hoping to cow dissenters and forestall a major bloodletting.
- Advocacy of secession could be criminalized and its advocates prevented from seeking elective office or even arrested.
- The Russian minority in the Baltic could be spurred to use strikes or work stoppages to tie up the local economies. ~~(S NF)~~

Gorbachev undoubtedly recognizes that these options carry the risk of provoking demonstrations and escalating into a situation that could ultimately trap the leadership into sending in troops. The risk would be less, however, than that associated with a general crackdown in the Baltic republics, which most believe would be used only as a last resort. Even this latter course would be less risky for him and the system than letting the Baltic republics go. This move would encourage other much larger nationalities, such as Ukrainians, to seek similar goals and make regime survival problematic at best. ~~(S NF)~~

The Economy. The USSR's swelling budget deficit, spiraling inflation rate, and continuing shortages of consumer goods threaten not only the country's economic well-being but *perestroyka* itself. Because of this, we expect Gorbachev to give special emphasis to a new economic stabilization program designed to

slash the budget deficit, reduce the ruble "overhang," and provide some immediate relief to the consumer. Specifically:

- The plan for 1990 is to cut the budget deficit in half by reducing spending for investment and defense and by increasing revenues through various means.
- Bonds and state housing will be offered to enterprises and individual citizens to soak up excess liquidity.
- Stiff taxes have been imposed on wage hikes of more than 3 percent unless related to increased output of consumer goods.
- Production of consumer goods is programmed to grow by 12 percent in 1990 over the planned level for 1989, and imports of industrial consumer goods are scheduled to rise by 15 percent per year this year and next. ~~(S NF)~~

This stabilization program, however, will not achieve the desired objectives. The regime apparently recognizes this and is reportedly considering more stringent measures to help stabilize the economy. This could include a currency reform—the conversion of old rubles into new ones at different rates depending on the size or form of holdings. Price increases on heavily subsidized basic goods and services, which we believe are necessary to get a hold on the monetary imbalance, are apparently not imminent. A draft blueprint for economic reform that is currently under discussion calls for a deregulation of retail prices only on luxury items, most imported goods, and high-quality foods and delicacies beginning in 1991. The rising tide of consumer dissatisfaction, combined with the legislature's increased authority and responsiveness to public opinion, will make it difficult for the leadership to adopt the tougher austerity measures needed to improve the economy's health. ~~(S NF)~~

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Figure 6
USSR: Summary of Selected Indicators of Consumer Welfare

Indicators	Performance measures ^a				Popular perceptions ^b	
	1986	87	88	89 ^c	88	89
Overall consumption per capita	●	○	●	○	●	●
Meat	○	○	○	○	●	●
Vegetables and fruit	●	●	●	●	●	●
Durable goods	○	●	○	○	○	●
Automobiles	●	○	●	●		
Home electronics	○	○	●	●		
Clothing	○	○	●	○	○	●
Personal care and repair services	○	●	●	●	○	○
Housing	○	●	●	●	○	●
Health care	●	●	●	●	○	○
Leisure and recreation	○	●	●	●	●	●
Inflation	○	○	●	●	●	●
Rationing ^d					○	●
Working conditions	●	●	●		●	●
Protection of the environment	○	○	●		●	●

^a Performance is measured by comparing an indicator's rate of growth with the growth rate achieved during 1981-85, the five-year period that preceded the Gorbachev era.

^b Based on CIA analysts' judgments of the perception of citizens in the USSR as to how living standards have changed under Gorbachev—through August 1989—in comparison with the first half of the 1980s.

^c Projections based on data for January-June 1989 compared to the same period in 1988.

^d No performance measures are included for this indicator because we lack sufficient data on performance during the baseline period, 1981-85.

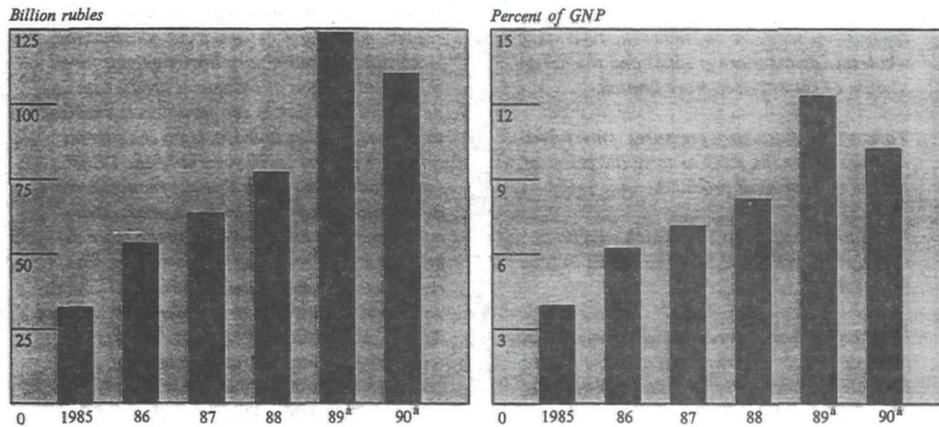
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Figure 7
USSR: State Budget Deficit, 1985-90

Note scale change



^aThe CIA estimates for 1989 and 1990 are based on plan data. The range in the estimates for those years reflects uncertainty about the success of announced Soviet measures to reduce the deficit.

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The severity of the economic situation has forced the regime to backtrack on those economic reforms that would exacerbate the fiscal dilemma, hurt the consumer, and undermine popular support for *perestroika* (see inset, page 14). Gorbachev regards this as a temporary retreat, however, and we expect him to continue his efforts to develop a more coherent plan for enlarging the role of the free market and private enterprise that will lay the groundwork for the introduction of more far-reaching measures when the economy is more stable. These measures include:

- A new corporate and individual income tax system.
- Antitrust legislation designed to break up the country's massive production conglomerates and encourage competition.

- A redefinition of property rights that puts the socialist and cooperative/private sectors on a more equal footing.
- An overhaul of the monetary/financial system to increase the ability of central authorities to employ economic rather than administrative levers. (S NF)

In a move driven more by politics than economics, Gorbachev will continue to provide strong support for efforts to give the republics greater economic autonomy under a system known as regional self-financing. This decentralization of economic authority is designed to assuage some of the republics' demands for

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Pulling Back on Reform

- Both wholesale and retail price reform, scheduled for implementation in 1990 and 1991, were delayed. At first postponed indefinitely, plans now under discussion would return to the original schedule but make the revision of wholesale prices more gradual and the deregulation of retail prices more limited.
- To control inflationary pressures, enterprises no longer have the right to raise the prices of certain categories of products.
- Mandatory output targets, which were to be sharply reduced, have been reinstated in several sectors.
- Decisions on wage increases, which were to be the preserve of the enterprise, are now to be controlled by centrally imposed taxes on the growth of the enterprise wage fund. ~~(S, NF)~~

Regional Self-Financing

The Law on Regional Self-Financing, scheduled for nationwide implementation in 1991, will give the republics more authority over and responsibility for the production of food, consumer goods, services, and local construction. According to preliminary Soviet calculations, the overall output of industrial production under the jurisdiction of the republics is expected to increase, on the average, from the current level of 5 percent to 36 percent of the USSR's total production. To involve the republics more directly in the effort to increase productivity, each republic's budget will be made more dependent on the profits of its enterprises. The republics' economic plans, however, will continue to be dominated by state orders and "control figures" established by Moscow, and key sectors of the economy, strategic planning, and control over resources and financial policies will be left in Moscow's hands. ~~(S, NF)~~



Figure 8. City of the future, Krokodil, July 1989
(U)

greater independence while at the same time making them more accountable for their economic performance (see inset) ~~(S, NF)~~

Impact of Reform on Soviet Society

The Soviet system clearly is changing dramatically. Unlike the leaders in China, Gorbachev appears to believe that the new order must be built on foundations of political and social legitimacy if it is to succeed. But reform is often more difficult than revolution, and the genies he has released will defy the boundaries the system tries to place around them. ~~(S, NF)~~

Although Gorbachev's economic policies point in the right direction, we believe they are unlikely to bring any substantial improvement in economic performance during the next two years and the situation could get worse, particularly this winter when food supplies will decline and spot fuel shortages may increase:

- The deficit will remain high, there will be little economic growth, and the demand for goods and services will greatly exceed their supply.

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- Overly ambitious targets for the production of consumer goods are unlikely to be met. Some modest improvements are possible, but—even with the cuts in defense spending—any gains will come slowly because of the long leadtimes involved in shifting production capacity toward consumer goods and be restricted to relief in a few areas. Rationing and periodic runs on scarce goods will continue.
- Gorbachev's reforms will put increased financial pressure on the enterprises and should help reduce redundant labor and some waste of materials. But these benefits too will be slow in coming and probably outweighed by dislocations, such as unemployment, and other disruptions resulting from the conflicting signals that piecemeal implementation of reforms will continue to create.
- Increased regional autonomy could eventually make the distribution of food more efficient by reducing Moscow's role as the chief bottleneck in an overly centralized system. Thus far, however, local officials are introducing protectionist measures that are causing even more disruption and disequilibrium in national balances.
- Antimonopoly legislation and other reforms now under consideration hold some promise for the future but will only begin to take root during the period under consideration.
- If Gorbachev adopts a more radical approach on monetary stabilization, the economic and political environment for reforms could improve, allowing him to at least push ahead rather than delay further. ~~(S, NF)~~
- Although the new Supreme Soviet will not achieve the role of a Western legislature in the next two years, it is no longer the rubberstamp organization it once was, and the leadership will have to take it increasingly into account. This will provide a channel for citizen involvement in decisionmaking, give the leadership a more accurate barometer of grassroots opinion, and have an impact on important legislation.
- The challenge of contested elections—whether to party or state posts—also will force the party to engage in a genuine dialogue with other organizations, including informal political groups. Although official opposition to a multiparty system will remain, these new groups are already operating like parties and in many regions could become the governing authority, replacing the Communist Party. ~~(S, NF)~~

The radical transformations under way in *Eastern Europe* are likely to have a major impact on the fate of *perestroika* in the USSR. As long as widespread domestic violence is avoided, anti-Sovietism held in check, and Warsaw Pact membership maintained, Gorbachev appears willing to tolerate almost any political change in East European countries—including the demise of the Communist parties. A continuation of such fundamental reform in Eastern Europe will reinforce the trend toward the thus far much less radical reform in the Soviet Union. Although the stakes are far greater at home, Gorbachev's willingness to accept multiparty systems in Eastern Europe will over time make it more difficult for him to reject such a course for the USSR. ~~(S, NF)~~

Gorbachev's political reforms have more potential to produce results that would make any effort to turn back the clock more difficult and costly:

- His electoral reforms appear to be mobilizing the population, creating channels through which its interests can be expressed, and making officials more accountable to their constituencies.
- The boundaries of intraparty dialogue will probably expand even further, making any return to "democratic centralism" less likely.

Perestroika in the Soviet Union and Gorbachev's own political survival would be threatened, however, if events in Eastern Europe were to spiral completely out of control or take on an aggressively anti-Soviet character. Such a scenario—particularly if it occurred in East Germany or Poland and threatened the security of Soviet troops stationed there—would put tremendous pressure on Gorbachev to use Soviet forces to restore order and prevent the breakup of the alliance. An attempt to do so would lead to bloody repression, freeze relations with the West, and halt

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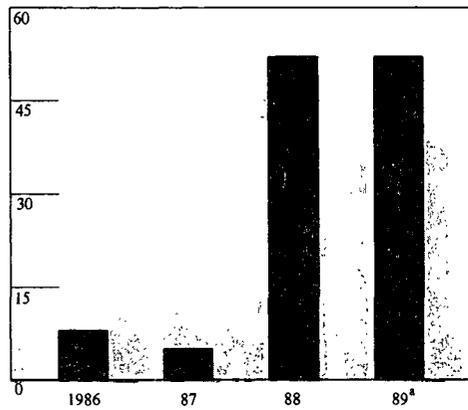
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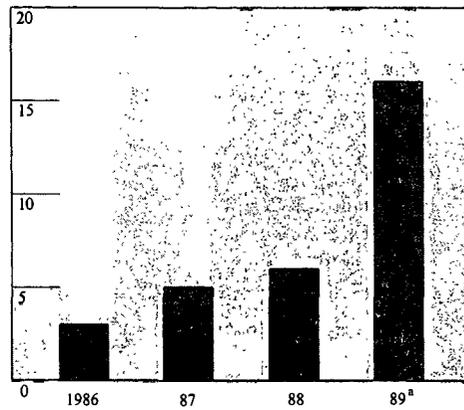
Figure 9
Growth of Rationing in the USSR

Note scale change

Cities Reporting Rationing



Commodities Reported Rationed



^a Projected.

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liberalization in the USSR. If Gorbachev resisted using Soviet forces in this scenario, orthodox elements in the party, the military, and the security services would almost certainly attempt to oust him. Their success, which would be followed by a violent crackdown on Eastern Europe, would set back *perestroika* for years, if not kill it entirely. ~~(S)~~

A Repressive Crackdown: A Less Likely Scenario

There is a less likely scenario for the course of events in the USSR over the next two years that all analysts acknowledge is a possibility. In this scenario the *turmoil becomes unmanageable and so threatening to the system that the requirements of survival lead to a massive crackdown, ending reform efforts for some*

time to come. Several developments could lead to such an outcome:

- The virtual certainty of continuing instability on all fronts could drive the leadership in an ever more orthodox direction that Gorbachev will be unable to resist if he wants to stay in office. Current attempts to rein in the media and draw clearer lines on nationality policy may portend such a course.
- The economy could decline much further over the next two years. Severe shortages of food and fuel this winter would be especially dangerous for the regime. This situation would substantially increase the prospect of regime-threatening labor strife and make the likelihood of a repressive crackdown much greater.

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- Baltic nationalists could push so hard for independence that a confrontation over this issue cannot be avoided and would force the regime to use substantial force to maintain Soviet rule. Less repressive measures may not prevent secession. ~~(S-NP)~~

Such a crackdown would not be so easy now. The politicization of society has gone quite far. Ethnic minorities will not readily give up their gains and hopes for the future. The longer the current reform process is allowed to continue the more difficult and probably bloody would be any attempt to repress it. The institutional support for repression, nonetheless, remains and would in the view of most analysts still be able to regain some control over society if ordered into action. ~~(S-NP)~~

Such a repressive regime would retreat to policies that would be less disruptive than the present brand of *perestroika*. While perhaps pursuing nominally reformist policies, the assault on the fundamentals of the Stalinist system would stop, and the reforms that threaten the party and Moscow's control of the empire would be reversed. This path would increase order at the expense of decentralization, democratization, and human rights. It might in the short run improve government performance by returning to well-known principles of management. It would not address the fundamental economic and social problems now plaguing the Soviet Union. It may be only able to reimpose calm for a relatively short period, making the eventual storm far greater than the one facing the regime now. ~~(S-NP)~~

In the economic sphere, retrenchment would mean adoption of a more orthodox approach, deviating less markedly from the traditional Soviet model. Such an approach would place less emphasis on market forces, strengthen ministerial controls, and give the enterprises less decisionmaking discretion. It would also impose stricter limitations on private businesses (cooperatives), individual labor, and leasing arrangements by reducing the scope of such activities, introducing stricter eligibility requirements for those engaging in them, and revising the tax structure in ways to make

the private sector less attractive. Soviet advocates of this approach still believe economic gains are possible through stricter work discipline, the introduction of high technology, and a crackdown on flagrant official corruption. ~~(S-NP)~~

There would be an even greater retrenchment on *glasnost* and the liberalization process. Efforts would be made to increase central control over the electoral process and to restrict the Supreme Soviet's newfound authority. This would quite likely require measures now judged to be unconstitutional in the USSR (arrests of Supreme Soviet and Congress deputies, rule by decree, perhaps shutting down the Supreme Soviet) and use of force:

- Within the party, emphasis would be placed on unity rather than a pluralism of views; the formation of unofficial groups would also be prohibited.
- The range of permissible public and media discussion would be significantly narrowed, overt censorship would return, access to information from the West would be reduced, and opportunities for Soviet citizens to travel abroad would become more limited.
- Human rights generally would be much more vulnerable than now; the security services would once again have relatively free rein to deal with dissidents, nationalists, and strikers. ~~(S-NP)~~

Under such a retrenchment, the regime also over time would become much less willing to make significant concessions to ethnic demands, fearing this would strengthen the hand of those who want nothing less than complete political independence. There would be less reluctance to use draconian measures to put down ethnic strikes and demonstrations that threatened central authority or damaged the national economy. And the planned experiments in regional economic autonomy—designed to assuage the demands for increased political independence—would likely be canceled or sharply curtailed. ~~(S-NP)~~

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An Alternative View

The CIA's Deputy Director for Intelligence believes that the first of the two main scenarios presented in the Estimate does not adequately capture the likely scope of change in the USSR over the next two years and that the second is not at all the inevitable alternative. ~~(S-NF)~~

Assuming Gorbachev holds on to power and refrains from repression, the next two years are likely to bring a significant progression toward a pluralist—albeit chaotic—democratic system, accompanied by a higher degree of political instability, social upheaval, and interethnic conflict than this Estimate judges probable. In these circumstances, we believe there is a significant chance that Gorbachev will progressively lose control of the situation. During the period of this Estimate, the personal political strength he has accumulated is likely to erode and his political position will be severely tested. ~~(S-NF)~~

The essence of the Soviet crisis is that neither the political system that Gorbachev is attempting to change nor the emergent system he is fostering is likely to cope effectively with newly mobilized popular demands and the deepening economic crisis. ~~(S-NF)~~

Gorbachev and the Soviet regime will increasingly be confronted by the choice of acceding to a substantial loss of political and economic control or attempting to enforce harsh limits—both economic and political. Such limits are not acceptable to nationality groups that want meaningful autonomy, to new political organizations and individuals who want full political freedom, or to the general citizenry who, as workers and consumers, want immediate improvement in what they know to be a deteriorating standard of living. Indeed, a program that could stabilize the economy and prepare the way for serious economic reforms would require reductions in consumer subsidies and other measures painful to the populace. The regime's hopes of producing more consumer goods, including the conversion of defense industries, are unlikely to yield substantial results during the period of this Estimate. ~~(S-NF)~~

Facing this dilemma, Gorbachev will press for political reforms that propel the process forward, *and* try to keep change within bounds. To do the latter, he will use political and economic pressures and resort to coercion periodically. This approach is unlikely to work. The upshot for Gorbachev personally will be to drive him to either give up his still authoritarian vision in favor of a truly democratic one, or recognize his vision as unreachable and try to backtrack from democratization. Gorbachev is unlikely to choose clearly either of these positions, thereby intensifying the crisis and increasing the prospect of a resort to force and repression. ~~(S-NF)~~

Massive repression, as the second scenario of the Estimate suggests, is possible. However, this is less likely to be led by Gorbachev than by a political and military coalition that managed to outmaneuver him. Gorbachev is more likely, in CIA's view, to use coercive measures in unsystematic and ad hoc ways that do not stop the ongoing systemic change and destruction of the one-party state. ~~(S-NF)~~

Implications for the Future of the System

The Intelligence Community believes that Gorbachev's political reforms are designed to strengthen the regime's legitimacy by giving Soviet citizens the ability to improve their lives by *working through the system*. To achieve that legitimacy, however, the system must be able to produce the desired result—namely, real improvement in the quality of Soviet life. The modest improvements we expect in consumer goods and services over the next few years are likely to fall far short of that goal but may be sufficient to buy the regime additional time for its policies to take hold. ~~(S-NF)~~

The same reforms required to strengthen the system's legitimacy, however, are also *certain to make the next few years some of the most turbulent and destabilizing in Soviet history*. Even though Gorbachev's concern about potential consumer backlash has caused

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him to pull back on some of his economic reforms, his attempt to revitalize the Soviet economy will prove highly disruptive:

- The Stalinist economic mechanism is broken, but the failure to create a new one to do its job has resulted in confusion and contributed to the economic stagnation.
- His effort to improve economic efficiency by reducing the number of excess workers may require many of them to take less attractive positions—at lower pay or in less desirable locations.
- Social tensions also will be exacerbated by his attempt to make wages more dependent on productivity—a move that workers accustomed to the traditional “free lunch” find threatening.
- Resentment of those enriching themselves in the private sector already has led to outbursts of violence and retribution and is likely to increase as the gap in the incomes of productive and unproductive workers widens. ~~(S, NP)~~

We believe Gorbachev's policy of *glasnost* will help to reengage a disaffected populace and provide a vent for the frustrations that built up under Brezhnev. But it will also encourage activities the regime finds undesirable—notably, the mobilization of groups advancing ideas inimical to state interests, such as the separatist movements of minority nationalities. The modest retrenchment on this front will reduce the damage but not eliminate the problem. Gorbachev's electoral reforms are intended to channel this new political activism into official institutions, but under the banner of *glasnost*, groups are issuing demands that challenge central authority and could eventually form the basis of a political opposition. Such a course can ultimately work only if there is at least broad acceptance of the Soviet state. ~~(S, NP)~~

In our view, the growing assertiveness of the Soviet Union's minority nationalities will pose a significant challenge to the stability of the Soviet system during this period. It also is increasing the tensions between the republics' native and Russian populations. As a

result, Russian nationalist organizations, including the more hardline groups such as *Pamyat*, are likely to grow bolder and gain increased support. ~~(S, NP)~~

The regime's more repressive approach since last year in the Caucasus—the continued martial law in Armenia and Azerbaijan and harsh suppression of demonstrations in Georgia—will be accompanied by some concessions, including legislation designed to give republics in this region and elsewhere greater economic independence and protect the rights of scattered nationalities. Gorbachev also is attempting to establish new mechanisms to deal with constitutional disputes between Moscow and the republics as a way of keeping such grievances within official channels. ~~(S, NP)~~

The USSR will be plagued by serious labor unrest over the next two years. Strikes will continue as economic conditions fail to meet popular demands. Gorbachev's conciliatory handling of the nationwide coal miners' walkout last summer has legitimized strikes in the minds of Soviet workers, who no longer fear that the regime will use force to break strikes. Moscow is likely to face several strikes at any given time; most will probably be small, but some might involve tens or hundreds of thousands of workers at large enterprises or throughout a city. Although no general strikes over economic problems appear imminent, the possibility cannot be ruled out, especially if distress over rationing spreads and intensifies. ~~(S, NP)~~

We believe Gorbachev will continue to rely on negotiation, rather than violent suppression, to end any strikes that break out. In some cases, he probably will insist on strict enforcement of the new law on labor disputes, which went into effect in late October and requires several weeks of collective bargaining before workers may legally declare a strike. The law bans strikes outright in strategic sectors of the economy, such as energy, transportation, public works and utilities, as well as law and order agencies, and violators may be fined or even fired. Strikers may attempt to thwart application of these sanctions, however, by walking out in large numbers. ~~(S, NP)~~

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Whose Perestroika: The Political Spectrum in the USSR

Issues like the creation of a multiparty system, economic reform, preservation of the Soviet federation, and the limits of glasnost have brought the political spectrum in society and the regime into sharp focus. Both have fractured into general groups, from party traditionalists on the right to radical reformers on the left. There are also small factions on the extreme left and right of this spectrum. (S-NT)

Party traditionalists support perestroika in general terms, but have little tolerance for what they perceive as the step-by-step dismantling of Marxist-Leninist ideology. They believe that political and economic centralization, under the leadership of the Communist Party, is one of the chief reasons that the Soviet Union has achieved superpower status. As a result, they are loath to accept criticism of the Soviet past—the trials and repressions of the Stalin era or the “stagnation” of the Brezhnev years—and prefer to emphasize the positive accomplishments of Soviet power. They strenuously oppose political pluralism and private economic activity. Many in this group have a xenophobic mistrust of foreign influences and institutions, assuming that closer ties to the West will subvert socialist values. Within society at large, groups like the United Workers' Front support these positions; among Politburo members, only Ligachev represents this view. (S-NT)

“Establishment” radicals seek to reform society by transforming society's institutions, beginning with the party. They seek to preserve single-party rule, but through a revamped Communist Party. They support greater republic economic autonomy and some concessions to a free market system, but they insist on the preservation of a strong, united Soviet Union. Glasnost to this group is a means of opening up society to the changes that are necessary to revive political life and awaken economic reform; theirs is a glasnost with distinct, albeit liberal, boundaries. Gorbachev, Yakovlev, Medvedev, and Shevardnadze are the Politburo members most identified with this mindset. (S-NT)

“Antiestablishment” radicals in general draw their inspiration from Western nonsocialist models and support fundamental changes in the political system and the injection of market forces in the economy. They believe strongly in political pluralism, some stressing genuine competition among rival parties. Some, including Yel'tsin, emphasize social justice and the abolition of nomenklatura privileges. Many, like Sakharov, believe that the CPSU should be legally responsible to the Supreme Soviet. (S-NT)

Another potential threat to the stability of the system is the growing openness in questioning the necessity for one-party rule—a development that is likely to escalate with the formation of a non-Communist government in Poland and eventually in Hungary. We believe most of the newly formed groups, with their highly parochial agendas, will find it difficult to coalesce into a countrywide alternative to the Communist Party. If the pressure for political pluralism grows, Gorbachev might eventually have to contemplate a system that allowed nominal organized opposi-

tion to the party to build regime credibility. For the near term, however, we believe his strategy of enlarging the scope of intraparty debate and allowing some nonparty criticism of government decisions may obviate the need for such a move (see inset). (S-NT)

These threats will not go away and could lead to Gorbachev's downfall and the demise of reform. His program of allowing greater pluralism of expression and expanded popular participation in the political

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Gorbachev and the Military: Living With Perestroika

Since becoming General Secretary, Gorbachev has challenged the military's priority status and tightened party control over it. Gorbachev purged the Defense Ministry's senior leadership and tapped a comparative outsider, Gen. Dmitriy Yazov, as Defense Minister, who was mandated to accelerate perestroika in the armed forces. Since then Gorbachev has kept up the heat on the military. He pushed the General Staff to help him work out the unilateral conventional force cuts announced in December 1988 and to formulate conventional and strategic arms reduction proposals that, if implemented, would mean large reductions in military manpower and capabilities. Simultaneously, Gorbachev has initiated a program converting defense industrial capabilities to support the civil economy. Working through the newly empowered Supreme Soviet, Gorbachev has forced the military to open its books and to submit its budget and some personnel policies to parliamentary oversight. ~~(S-NF)~~

It has been difficult for the military to assimilate all this. The manpower reductions, for example, are testing the armed forces' ability to efficiently select officers for discharge and resettle their families. Nationalism has become another serious problem as non-Russians refuse to serve outside their home regions and hazing and bullying increasingly take on an ethnic cast. Because the

government has frequently used army troops to backstop overextended Interior Ministry assets, the military has become the focus of blame for excesses incurred during police actions against battling ethnic groups. This has added to the surprisingly virulent antimilitarism that has emerged in response to media criticism of military problems. Several Soviet officers have complained to Americans that all these changes have combined to lower the prestige of the military. ~~(S-NF)~~

Gorbachev has firm control over the military. He has reduced military influence in national security decisionmaking and made cuts to the defense budget. He has created a more malleable high command, led by officers, such as Yazov and General Staff chief Moiseyev, who are more personally beholden to the General Secretary. Various sources indicate that Yazov, who is only a candidate Politburo member, does not play a dominant role in national decisionmaking. The military is continuing to voice its opinion and speak out against reforms that it considers unreasonable—such as the creation of an all-volunteer armed forces—but there is little it can do if the government and parliament insist on the changes. ~~(S-NF)~~

process is predicated on the belief that the Soviet population is fundamentally loyal to the state, that the interests of important social groups can largely be accommodated within the system, and that even non-Russian groups like the Baltic peoples seeking independence can eventually be co-opted into settling for greater autonomy. He is trying to demonstrate that reform can be managed in a way that avoids loss of regime control of the process and heads off pressure for more radical reforms that would truly revolutionize the system. He is, thus, engaged in a gamble of enormous proportions and uncertain consequences. ~~(S-NF)~~

Implications for Gorbachev's International Agenda and US Policy

Gorbachev Stays the Course

If Gorbachev remains in power and avoids having to retrench significantly, we expect little change in the direction of his foreign policy. He will still have a pressing need for a stable international atmosphere that will allow him to concentrate on perestroika and to shift funds from defense to the domestic economy. Up to a point, the prospect of continuing turmoil at home will reinforce sentiment in favor of a respite from East-West tensions (see inset). ~~(S-NF)~~

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We expect Gorbachev to:

- Push hard for conclusion of arms control agreements with the West.
- Broaden the base of the improvement in relations with the United States and Western Europe and seek to shape the evolution of the European security order.
- Go further to defuse human rights as a contentious issue in US-Soviet relations.
- Remain tolerant of changes in Eastern Europe that reduce Soviet influence.
- Consolidate the rapprochement with China.
- Seek to reduce military commitments in the Third World and avoid confrontation with the United States.
- Step up efforts to make the USSR into a more credible player in the international economic system. ~~(S/NF)~~

Retrenchment

The retrenchment scenario sketched out above would make Moscow:

- Less likely to make meaningful unilateral arms control concessions or military reductions.
- Less tolerant of liberalization in Eastern Europe, but unwilling to attempt to regain what has been lost.

- More supportive of leftist allies abroad.
- More reluctant to undertake any radical reorganization of the Soviet military and security services.

~~(S/NF)~~

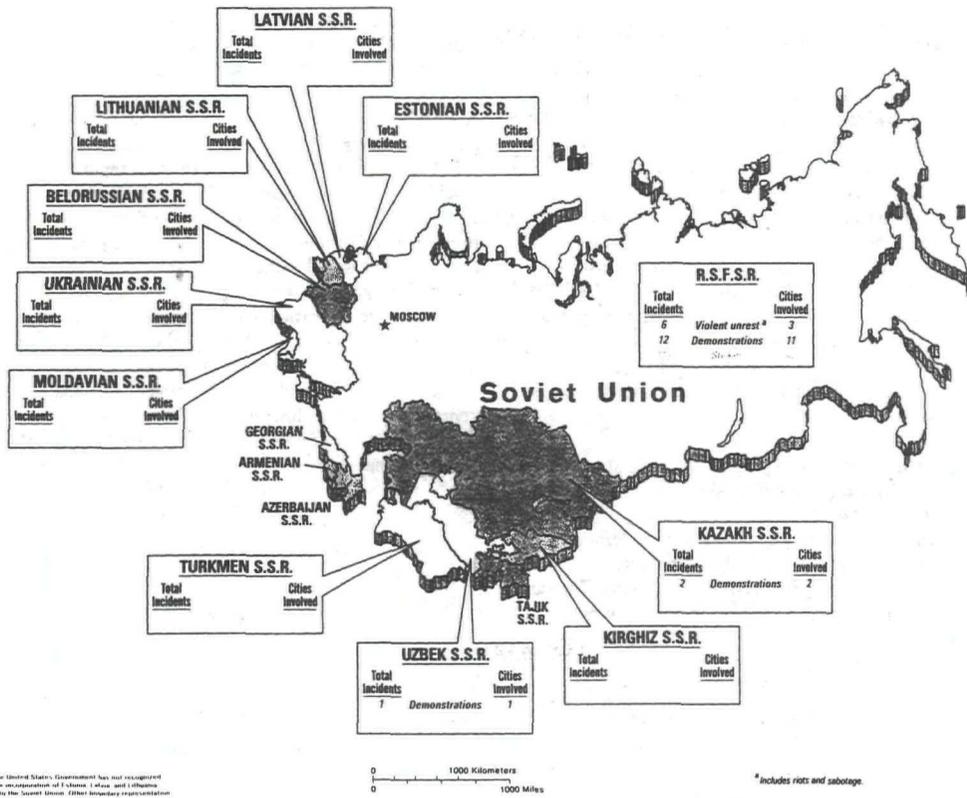
A more orthodox Communist regime's harder line on a range of foreign and domestic issues would certainly increase East-West tensions, but the new regime would try to limit the damage. We see little chance that such a regime would find it in the Soviet interest to revert to an openly confrontational strategy toward the West that would entail a major new military buildup or significant risktaking in the Third World. In fact, its preoccupation with the problems of domestic order and consumer discontent would place some limits on its ability to shift resources back to the defense sector. It would probably implement arms control agreements already reached but be less inclined to make concessions to complete those still being negotiated. ~~(S/NF)~~

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Figure 10
Reported Incidents of Economic Unrest, January 1987-September 1989



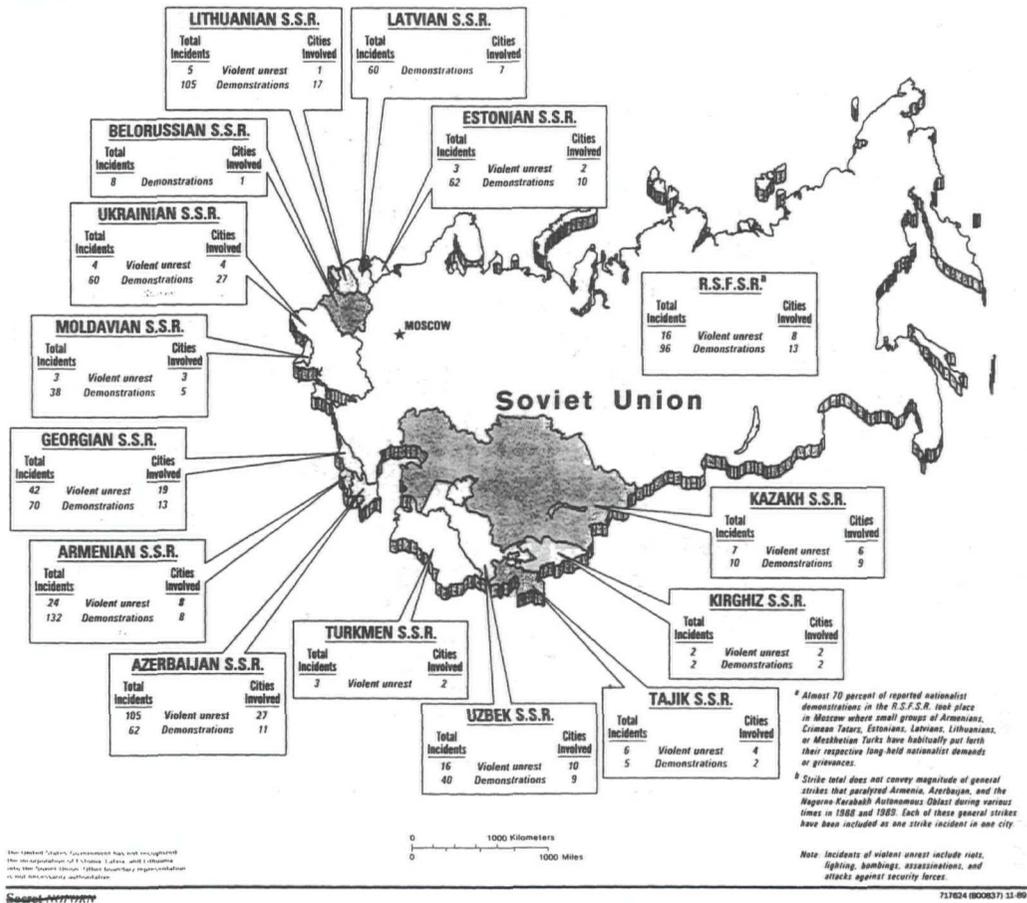
The United States Government has not recognized the incorporation of Latvia, Lithuania and Estonia into the Soviet Union. Other boundary representation is not necessarily authoritative.

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Figure 11
Reported Incidents of Nationalist Unrest, January 1987-September 1989



The United States Government has recognized the incorporation of Crimea, Latvia, and Estonia into the Soviet Union. Other boundary representation is not necessarily authoritative.

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4. NIE 11-18-90, November 1990, *The Deepening Crisis in the USSR: Prospects for the Next Year*



Director of
Central
Intelligence

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The Deepening Crisis in the USSR: Prospects for the Next Year

National Intelligence Estimate

This National Intelligence Estimate represents the views of the Director of Central Intelligence with the advice and assistance of the US Intelligence Community.

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NIE 11-18-90
November 1990

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Director of
Central
Intelligence

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NIE 11-18-90

The Deepening Crisis in the USSR: Prospects for the Next Year

*Information available as of 1 November 1990 was used
in the preparation of this National Intelligence Estimate.*

*The following intelligence organizations participated
in the preparation of this Estimate:*

The Central Intelligence Agency
The Defense Intelligence Agency
The National Security Agency
The Bureau of Intelligence and Research,
Department of State

also participating:

The Deputy Chief of Staff for Intelligence,
Department of the Army
The Director of Naval Intelligence,
Department of the Navy
The Assistant Chief of Staff, Intelligence,
Department of the Air Force

*This Estimate was approved for publication by the
National Foreign Intelligence Board.*

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November 1990

The Deepening Crisis in the USSR: Prospects for the Next Year. ~~(S)~~

- No end to the Soviet domestic crisis is in sight, and there is a strong probability that the situation will get worse—perhaps much worse—during the next year. ~~(S)~~
- The economy is certain to decline, and an economic breakdown is a possibility. The central government will be weaker, and some republics will be further along the road to political independence. ~~(S)~~
- The current situation is so fragile that a combination of events—such as the death of Gorbachev or Yel'tsin, a precipitous economic decline, massive consumer unrest, or an outbreak of widespread interethnic violence—could lead to anarchy and/or the intervention of the military into politics. ~~(S)~~
- The certain continued diffusion of power will make the conduct of Soviet foreign policy more difficult and complicate relations with the West. At a minimum, Western countries will be confronted with more urgent pleas for economic assistance—especially from republic leaders, who will also push for political recognition. ~~(S)~~

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Figure 1
Scenarios for the Next Year

Scenario ^a	Factors That Could Lead to Scenario	Rough Probability
<p>Deterioration Short of Anarchy</p>	<p>Failure to agree upon and implement effectively a far-reaching marketization plan; or the broad resistance of the population to such a course.</p> <p>Failure of the center and the republics to move to new, mutually acceptable political and economic relations.</p> <p>Inability of political institutions to adapt to changing political realities, and ineffectiveness of new democratically elected leaders in governing.</p> <p>Continued, though diminished, viability of the central government.</p>	<p>Close to even</p>
<p>Anarchy</p>	<p>A precipitous decline of the economy.</p> <p>Massive social protests or labor strikes that proved to be beyond the security services' ability to control.</p> <p>The assassination of Gorbachev or Yel'tsin.</p> <p>The complete breakdown of relations between the center and the republics--especially the Russian Republic.</p>	<p>1 in 5 or less</p>
<p>Military Intervention (ranging from a coup to civilian-directed martial law)</p>	<p>Breakdown of key elements of the national economy, such as the transportation system.</p> <p>Violence against central government institutions.</p> <p>A situation approaching collapse of central authority.</p> <p>Anarchy.</p>	<p>1 in 5 or less overall; much lower for a coup</p>
<p>"Light at the End of the Tunnel"</p>	<p>Substantial progress toward:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Developing a new set of relationships allowing the republics to deal constructively with each other and the center. <input type="checkbox"/> The filling of the political power vacuum by new political institutions and parties. <input type="checkbox"/> Establishing new economic relations based on the market. 	<p>1 in 5 or less</p>

^a These scenarios are analytical constructs describing overall directions the USSR could take over the next year and are not mutually exclusive.

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Key Judgments

The USSR is in the midst of a historic transformation that threatens to tear the country apart. The old Communist order is in its death throes. But its diehards remain an obstructive force, and new political parties and institutions have yet to prove their effectiveness. The erosion of the center's influence, coupled with the republics' assertion of sovereignty, is creating a power vacuum. Gorbachev has amassed impressive power on paper, but his ability to use it effectively is increasingly in doubt. Meanwhile, economic conditions are steadily deteriorating. ~~(C-INT)~~

Whether the Soviet Union over the next year can *begin* to find a way out of its crisis will hinge, above all, on two variables:

- *The performance of the economy.* The question is not whether the economy will decline further but how steep that decline will be. A precipitous drop would make crafting a new center-republic relationship next to impossible and markedly increase the likelihood of serious societal unrest and a breakdown of political authority.
- *The Gorbachev-Yel'tsin relationship.* Because of the Russian Republic's disproportionate size and influence in the union and Yel'tsin's role as the most prominent leader of the new political forces emerging throughout the country, the more open the confrontation between the two leaders, the more destabilizing it would be. ~~(C-INT)~~

In our view, prospects for positive movement in each variable are low. Gorbachev's economic reform plan, while endorsing marketization, falls far short of what is needed to stem the economy's decline. And the Yel'tsin-Gorbachev clash over the plan bodes ill for both economic and center-republic reform. ~~(C-INT)~~

For these reasons, we believe that over the next year a scenario of "deterioration short of anarchy" is more likely than any of the other three scenarios that we consider possible (see table). There is, however, a significant potential for dramatic departures along the lines of the "anarchy" or "military intervention" scenarios. ~~(C-INT)~~

In our most likely scenario, *deterioration short of anarchy*, the country's economic, political, ethnic, and societal problems will continue to get worse at an accelerating rate. Gorbachev probably will remain president a year from now, but his authority will continue to decline. His ambivalence

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toward radical transformation of the system probably will continue to delay decisive action and dilute the effectiveness of efforts to implement market reform or negotiate a new union. Yel'tsin's popularity and control over the Russian government will give him significant influence on the country's course over the next year. The different visions the two men have of Russia's and the USSR's future are likely to lead to more damaging political clashes. However, a combination of the remaining powers of the old order and the limited reforms the regime implements would prevent the entire system from disintegrating. ~~(C/NF)~~

In view of the volatile situation that prevails in the USSR today, however, we believe that three other scenarios—each roughly a 1-in-5 probability—are also possible over the next year.

- An accelerating deterioration is unlikely to continue indefinitely and could during the next year become a free fall that would result in a period of *anarchy*—the breakdown of central political and economic order.
- The chances for *military intervention* in politics would increase markedly in a scenario where the country was on the verge of, or in, a state of anarchy. Military intervention could take several forms: a military coup against the constitutional order, rogue activity by individual commanders, or martial law ordered by Gorbachev to enforce government directives. Of these, Intelligence Community analysts believe a coup to be the least likely variant and a civilian-directed martial law the most likely.
- A "*light at the end of the tunnel*" scenario, where progress over the next year toward the creation of a new system outpaces the breakdown of the old, cannot be ruled out. There would be further progress toward marketization and pluralization in spite of continued economic decline and political turmoil. ~~(C/NF)~~

Whichever scenario prevails, the USSR during the next year will remain inward looking, with a declining ability to maintain its role as a superpower. The domestic crisis will continue to preoccupy any Soviet leaders and prompt them, at a minimum, to seek to avoid direct confrontation with the West. But the particular foreign policies they pursue could vary significantly depending upon the scenario. Under the "deterioration short of anarchy" or "light at the end of the tunnel" scenarios, Moscow's Western orientation probably would be reflected in continued, possibly greater, Soviet willingness to compromise on a range of international issues. ~~(C/NF)~~

Special requests to the West for consultations, technical assistance, emergency aid, and trade from the central and republic governments are certain to increase. Unless political conflict over who owns resources and

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controls foreign trade is resolved, which is unlikely, both US governmental and private business relations with the USSR and its republics will be increasingly complicated. ~~(C-NF)~~

An "anarchy" scenario would create precarious conditions for relations with the West and would present the United States with some difficult choices. If the situation evolved into civil wars, we would face competing claims for recognition and assistance. The prospects for the fighting to spill over into neighboring countries would increase. The West would be inundated with refugees, and there would be enormous uncertainties over who was in control of the Soviet military's nuclear weapons. ~~(C-NF)~~

In a "military intervention" scenario, a military-dominated regime would take a less concessionary approach than Gorbachev's on foreign policy issues and pursue a tougher line on arms control issues and economic relations with Eastern Europe. A military regime, however, would be unable to restore Soviet influence in Eastern Europe and would be too busy attempting to hold the USSR together to resume a hostile military posture toward the West. ~~(C-NF)~~

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Discussion

Since the Intelligence Community's last Estimate of the Soviet domestic situation a year ago,¹ the USSR's internal crisis has deepened considerably:

- The Communist Party is dying but is still obstructive. Gorbachev has tried to shift the locus of power to the new presidency and legislatures, but they have yet to demonstrate their effectiveness.
- New political groups and parties have won power in key republics and cities and are posing a growing challenge to the Communist system.
- The national government is scrambling to control centrifugal trends, but its writ over the republics is fast eroding, and there is growing ethnic turmoil.
- Economic problems have become more intractable. The uncontrolled growth in demand and distribution problems have created increasing consumer discontent. Gorbachev has lost valuable time in stabilizing the economy and beginning the transition to a market economy.

Our previous Estimate, while foreseeing the tumult, overstated the regime's ability to contain the republics' drive for sovereignty and underestimated the challenge to Communist Party rule from new political forces. ~~(C/NF)~~

In such a volatile atmosphere, events could go in any number of directions. Because of this, the Intelligence Community's uncertainties about the future of the Soviet system are greater today than at any time in the 40 years we have been producing Estimates on the USSR. Accordingly, our projections for the next year will be highly tentative. ~~(C/NF)~~

¹ NIE 11-18-89 ~~(Secret/NF/NO)~~, November 1989, *The Soviet System in Crisis: Prospects for the Next Two Years*. ~~(C/NF)~~

Toward a New Political Order

The Communist Party's monopoly of power is history. The party is widely seen as the source of the country's problems, and popular hatred of it is increasingly evident. It lost its constitutional guarantee of political primacy in March, and its 28th Congress in July excluded government leaders (except for Gorbachev) from key party posts. The country's two largest cities and largest republic, as well as the three Baltic republics, Georgia, and Armenia, are now headed or have legislatures dominated by former or non-Communists. ~~(C/NF)~~

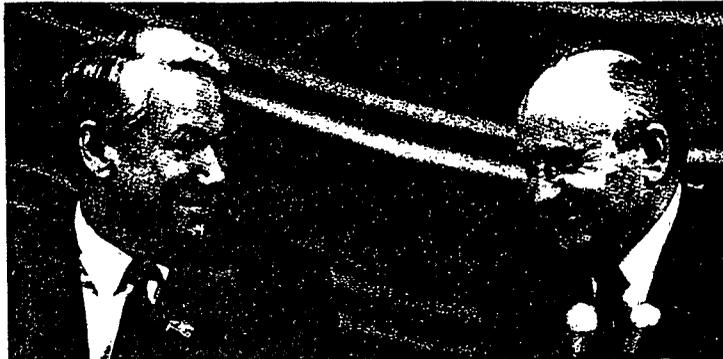
A new pluralistic, decentralized political system is emerging but is not yet capable of running the country. The center and the Communist Party still exercise a considerable, though declining, share of political power. *But the CPSU is too discredited to attract sufficient popular support needed to govern in the current environment.* At the same time, the emerging political groups, while showing strength, are still small and inexperienced in the ways of power and are not competitive on the all-union level (see inset, page 3). ~~(C/NF)~~

The governmental institutions to which Gorbachev has been attempting to shift power are likewise only in their formative stages. The Congress of People's Deputies (CPD) is foundering. The Supreme Soviet—elected by the CPD—has shown more promise, but is also losing influence because of its lack of popular legitimacy, its inability to act decisively, and the center's difficulty in maintaining control over major sectors of government. Gorbachev has made the presidency the highest organ of executive power, supplanting the CPSU Politburo and the Council of Ministers, but its real authority remains to be proved. This diffusion and confusion of power, coupled with the republics' assertion of sovereignty, is creating a power

4. (Continued)

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Figure 2. Yel'tsin and Gorbachev: Beyond the smiles, can they cooperate? (U)



vacuum. Gorbachev has amassed impressive power on paper, but his ability to use it effectively is increasingly in question and his popular support—~~_____~~—is dwindling ~~_____~~.
(C-~~NF~~)

Political Strategy of the Key Players

Gorbachev's defeat of the party's conservative wing at the congress has given him greater room to maneuver. The pressure created by Yel'tsin's growing influence has made Gorbachev realize that he must work with Yel'tsin and other non-Communist forces. He now accepts the inevitability of a weaker central government and a market-oriented economy. Yet Gorbachev, afraid of social upheaval, wants to preserve a significant measure of control over events. This has led him to try to bolster his powers as President, limit the influence of new non-Communist political forces, retain significant powers for the center in a new union, and water down the Shatalin Plan for transformation to a market economy. This course is at odds with Yel'tsin's on some key issues and is slower and not as far reaching as we believe is necessary. (C-~~NF~~)

The political forces outside the Communist Party are certain to get stronger; there is as yet, however, no coherent strategy among those forces as a whole. Many non-Communist figures are concentrating their efforts on organizing political parties. Others who have already won elections, such as Yel'tsin and

Moscow Mayor Gavriil Popov, have shunned involvement—for the time being at least—in any political party and concentrated on the basics of governing (see annexes). If they demonstrate over the next year that they can get things done and make the voices of their constituents heard, the prospects for a more rapid emergence of a non-Communist leadership on the all-union level would increase markedly. (C-~~NF~~)

Yel'tsin's immediate goal is achieving sovereignty and greater power for the Russian Republic (see p. 7); but the enormous size of that republic and his reputation throughout the USSR as unofficial leader of the non-Communist forces make him a formidable competitor to Gorbachev. Yel'tsin, who quit the CPSU in July, supports a multiparty democracy, rapid movement toward a market economy, and a much looser union in which the republics grant only limited powers to the center. (C-~~NF~~)

Currently, Yel'tsin appears to have the political advantage over Gorbachev; he is far more popular than Gorbachev in USSR-wide opinion polls. In the six months since Yel'tsin became Russia's President, the two have had periods of cooperation and confrontation. Their willingness and ability to cooperate will play a critical role in the fate of political, economic, and center-republic transformation in the USSR over the next year. Whether they will do so is open to question, given their mutual personal antagonism,

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~~Secret~~**Embryonic National Political Parties**

A wide array of political groups is emerging in the USSR as the country moves toward the development of a multiparty, state-of-law political system. They have the potential to gain significant electoral support but—except for those in the Baltics and the Caucasus—have yet to develop into full-blown political parties. The groups generally lack clear, comprehensive political platforms, and none has a formal membership of more than several thousand. Several groups claim to be parties or will claim that title soon. Although based in the Russian Republic, they have some following in other parts of the country. ~~(C/NF)~~

Democratic Platform. This group of democratic reformers from the CPSU is in the process of transforming itself into an independent party. Its leaders predict that 30 percent of the current CPSU membership will eventually join the new party, but the actual figure is likely to be lower. The party's platform supports the market as the prime regulator of the economy, private property, and "independence" for the republics. ~~(C/NF)~~

Democratic Russia. This group is currently serving as a legislative coalition and has run proreform candidates for local and Russian Republic elections. It embraces an assortment of political forces opposed to CPSU traditionalists. The group currently has strong majorities in the Moscow and Leningrad city councils and a thin majority in Russian Supreme Soviet. ~~(C/NF)~~

Social Democratic Party. Founded in January 1990, this party is trying to associate itself with European Social Democrats. It has generally supported Gorbachev but has charged him with being too cautious and seeking to perpetuate an authoritarian system. ~~(C/NF)~~

Christian Democratic Union of Russia. This party openly opposes Gorbachev. It insists that "Russia should become independent of the USSR" by establishing new forms of federation with other democratically inclined republics. The party's economic platform rejects capitalism while supporting a "free market controlled by society" and a progressive tax scale to protect the poor. ~~(C/NF)~~

Democratic Union. Radical by Soviet standards, this party believes the Soviet political system should be thoroughly overhauled to establish a voluntary federation of republics based on a Western-style multiparty system and a full market economy. Party leaders have stressed the need to confront government authorities in order to bring attention to the repressive character of the Communist system. ~~(C/NF)~~

Green Party. This party is taking shape among approximately 300 ecological organizations. These organizations agree on the need to protect the environment but have not been able to develop a consensus on other political or economic issues. ~~(C/NF)~~

different policy agendas, and political rivalry. Open confrontation would stymie system transformation and lead to greater instability. Cooperation would not guarantee peaceful transformation, but it would help significantly by garnering popular support for painful economic measures linked to marketization and by making it more difficult for the entrenched party machinery in the countryside to be obstructive. If Yel'tsin follows through during the next year on his

pledge to stand for popular election to the Russian Republic presidency, a decisive victory would further enhance his political influence. ~~(C/NF)~~

Gorbachev, the Supreme Soviet, and the Congress of People's Deputies, elected before the establishment of independent political parties, lack the popular support

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necessary to push through the difficult and painful measures needed to deal with the country's crises. Accordingly, Gorbachev could decide during the next year to create a "roundtable" between the government and non-Communist leaders a la Poland in 1989 or perhaps even form a grand coalition. This would involve the removal of the increasingly ineffective Nikolay Ryzhkov from the premiership. Elections for the Congress of People's Deputies are not due until 1994 and for the presidency until 1995, but Gorbachev may calculate that holding early legislative elections would allow new parties to gain representation. Submitting himself to the popular will would be risky, and he is unlikely to do so during the coming year. (S-1P)

Impact of Other Players

The Armed Forces and Security Services. Leaders of the military and security services perceive dangerous consequences from Gorbachev's domestic and foreign policies. These concerns reflect alarm over the collapsing authority of the party and the central government, growing domestic disorder, the unchecked spread of separatist movements, and the breakup of the East European security system. (S-1P)

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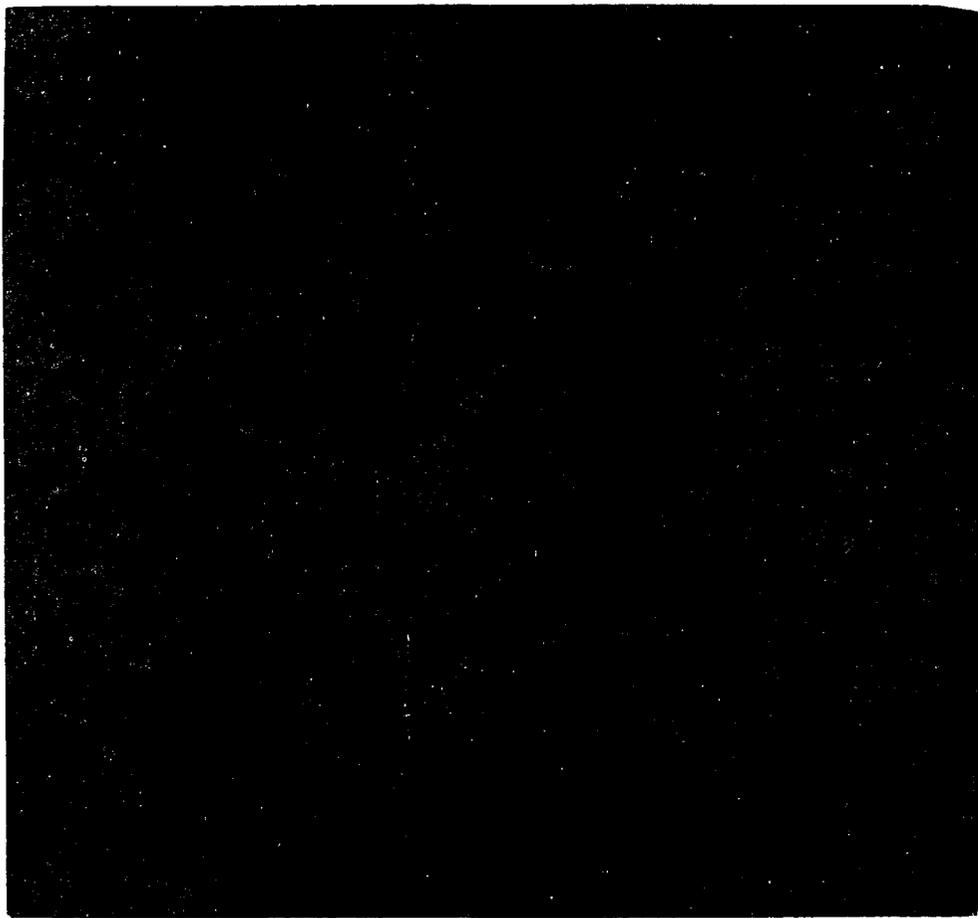
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These organizations will find their ability to cope with growing internal disorder limited over the next year. The military is averse to using its troops to police the population. Moreover, most Soviet troop units, because they are conscript based, are ill suited to controlling disorder—especially in Slavic areas. The KGB's ability to perform its internal security mission

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4. (Continued)



will also decline as more light is shed on its activities, independent political movements grow, and more local governments come under control of non-Communist

forces. The Ministry of Interior, despite a growth in manpower, is stretched thin and cannot control widespread domestic unrest. (S-RR)

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Figure 4. Demonstrations on May Day 1990 in Red Square. Banner reads: "Power to the people and not to the party!" (U)



Despite their apprehension over the current domestic situation and concern about their abilities to perform assigned missions, the military and security services do not pose a serious challenge to Gorbachev's leadership. They view themselves as instruments of the state and are attempting to help Gorbachev in dealing with the turmoil. Even with their many internal problems, they represent the most reliable institutional assets remaining at Gorbachev's disposal. (C-REF)

Society. Popular anger is growing, as is belief in the inability of the central government to lead the country out of the morass it is in. Deep pessimism about the future prevails, especially when it comes to bread and butter issues. People are searching for something to fill the emptiness in Soviet society through such alternatives as religion and nationalism. In particular, Russian nationalism—more likely in an inward-looking, rather than chauvinistic, variant—will play a growing role in the future of the country. (C-REF)

The reforms under way have given the peoples of the USSR greater say in their political and economic lives, and they have expressed their views through the ballot, demonstrations, strikes, and violence. The pop-

ulation's influence is likely to grow even more during the next year as power continues to move away from central institutions. How this influence is exercised and channeled will be critical variables. Separatist groups and new political parties—primarily on the left, but also from the right—will tap much of this popular activism. This will increase their importance but could also embolden them to take steps that lead to greater instability. Outbursts of civil disobedience are almost certain to grow; they are more likely to occur—and be most severe—in non-Russian areas but probably will also take place in the largest cities of the Russian Republic and in energy-producing regions. (C-REF)

The Crumbling Union

The Soviet Union as we have known it is finished. The USSR is, at a minimum, headed toward a smaller and looser union. The republics, led by Yel'tsin and the RSFSR, will intensify efforts to reshape the union independent of the center, further loosening Moscow's

4. (Continued)

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Figure 5
Soviet Republics

The United States Government has not recognized the incorporation of Estonia, Latvia, and Lithuania into the Soviet Union. Other boundary representation is not necessarily authoritative.



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grip over their regions. To date, these efforts are mostly declaratory; actual control over institutions and resources in the republics is still to be tested. (C-REF)

In an effort to cope with the nationalist forces straining the fabric of the union, Gorbachev now supports a substantially widened scope for market forces and the conclusion of a new union treaty by early 1991 that would establish new power-sharing relationships between Moscow and each republic. We doubt, however, that a new union treaty can be concluded within the next year. Gorbachev has indicated he will accept a reduction in the center's authority but so far is attempting to hold on to more authority than most

republics want to concede. The initiative now resides mainly with the republics, and any new treaty is likely to be driven more by what powers they are willing to grant the center than by what Gorbachev wants (see figure 6). (C-REF)

Because of the disproportionate size and influence of Russia, a new union treaty will not be concluded unless Yel'tsin and Gorbachev work together. How far many of the other republics go in demanding sovereignty will be directly affected by Russia's success in negotiating with the center and with the other republics. (C-REF)

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Figure 6
USSR: Soviet Republic Sovereignty Declarations

	Republic (in order of declaration)														
	Estonian SSR	Lithuanian SSR	Latvian SSR	Azerbaijan SSR	Georgian SSR	RSFSR	Uzbek SSR	Moldova	Ukrainian SSR	Belorussian SSR	Turkmen SSR	Armenian SSR	Tajik SSR	Kazakh SSR	Kirgiz SSR
Seeks immediate secession	☉	☉	☉	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
Supremacy of republic laws	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉
Right to republic military troops	☉	☉	☉	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	▲
Independent economic policy	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	▲	▲	
Republic banking, tax, currency	☉	☉	☉	☐	☐	☐	☐	☐	☐	^a	☐	^a	▲	▲	
Independent foreign relations	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	▲	
Control over natural resources	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	▲	
Republic citizenship	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	☉	▲	
Military neutrality	☐	☐	☐	☐	☐	☐	☐	^b	☐	☐	☐	☐	☐	▲	▲
Nuclear-free state	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	^c	▲
Participant in union treaty talks	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

^a Turkmen SSR and Tajik SSR have asserted the right to independent republic banking.

^b Moldova has declared itself to be a demilitarized zone.

^c Kazakh SSR, site of principal nuclear test range, has banned all nuclear testing and construction or operation of test sites for weapons of mass destruction.

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The Range of Republic Demands

The two largest and most powerful republics, Russia and the Ukraine, now support a severely limited central government and union as they demand substantial control over their own affairs. The Russian Republic legislature is calling for primacy of its own laws over Soviet ones, control of the republic's land and natural resources, fiscal policy, police and internal security forces, most economic enterprises, foreign trade, and some role in foreign and monetary policy. The Ukraine has gone further, asserting the right to establish its own army, and Belorussia and the Central Asian republics are also making far-reaching demands. The three Baltic republics are flatly rejecting political affiliation with the center before achieving independence. Georgia, Armenia, and Moldova, in which secessionist sentiment is especially strong, appear unwilling to sign a union treaty but are seeking a gradual transition to independence. (C-NT)

What Kind of Union?

The process of reshaping the union will vary according to the republic over the next year; at a minimum, the center will suffer a dramatic reduction in authority. (C-NT)

There is a better than even chance that Moscow and certain republics—Russia, Belorussia, Azerbaijan, and the Central Asian republics—will move toward a loosely affiliated union of republics. We believe that Gorbachev will ultimately go a long way to meet Russia's autonomy demands as long as the central government retains a meaningful role in the new union. Considerable difficulties and hard bargaining remain; but so far the demands of Russia and these other republics do not appear irreconcilable with Gorbachev's (see insets). (C-NT)

The Ukraine's future status is more uncertain. Growing radicalization of the nationalist organization Rukh and the population generally has pushed the Ukrainian legislature to take increasingly assertive

The Union Treaty: Areas Over Which the Center Seeks Control

Gorbachev apparently wants to maintain the primacy of union laws over republic ones and to preserve substantial central control of:

- *Natural resources and land.*
- *Defense and state security.*
- *Foreign policy.*
- *Macroeconomic policy.*
- *Foreign trade and customs.*
- *Border control.*
- *Science and technology policy.*
- *Power supply.*
- *Transportation.*
- *Protection of individual rights (C-NT)*

steps in defining the republic's relationship with Moscow. Rukh supports a complete break with the central government, but more traditionalist forces in the Russified eastern part of the republic are likely to try to impede any abrupt declaration of independence. (C-NT)

Thus, there is still a significant chance that Moscow will be unable to reach a mutually acceptable division of responsibilities even with the core Slavic republics. Moscow could reject their current demands, or the RSFSR or Ukraine could escalate demands in areas such as defense and monetary policy to the point where Gorbachev would feel he had no choice but to resist. A number of factors could contribute to a breakdown in negotiations, including a continued rise in Ukrainian nationalism, worsening of relations between Gorbachev and Yel'tsin, or rising popular unrest directed against central authority. In these circumstances, struggle for control of key institutions and enterprises in the republics would ensue, leading to sharp—probably violent—confrontation, with the very existence of the union at stake. The advantage in this scenario would belong to the "locals." (C-NT)

The Central Asian republics appear ready to try out a reformed union as a way of addressing their economic

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difficulties. Market reform will create disproportionate economic pain in the region, however, and could eventually produce disillusion with even a looser union. ~~(C/NF)~~

Although no republic is likely to become officially independent within the next year, *the Baltic republics* are almost certain to hold out for full independence and will be on their way to getting it. Latvia and Estonia will probably be willing to consider some kind of voluntary economic association with the Soviet Union now, but Lithuania is likely to be willing to do so only after achieving complete independence. *Georgia, Armenia, and Moldova* will probably reject any union treaty but will adopt a more gradual approach to independence than the Balts. As Georgia and Moldova press for independence, ethnic minorities there are likely to intensify calls for autonomy. This probably would not deter republic efforts. But Moscow may yet be able to play on Georgian and Armenian concerns about susceptibility to potential Turkish or other Muslim aggression without the protection of the Soviet security umbrella. And a shift in Romania toward greater authoritarianism would probably make the Moldovans more willing to stay in the union. ~~(C/NF)~~

The Economic Variable

Last year the Soviet economy slumped badly, and official statistics for the first nine months of 1990 paint a picture of an economy in accelerating decline. Output is down compared with a year ago, inflation is up, and shortages are widespread and increasing. Even though imports and production of some consumer goods are up (such as in agriculture and consumer durables), transportation bottlenecks and systemic inefficiency are denying consumers much of the benefit. Meanwhile, continued rapid growth in personal money incomes and a huge backlog of excess purchasing power have combined to undermine the ruble and

cause a vicious circle of shortages and binge buying, enflaming consumer anger and leading to violence. ~~(C/NF)~~

In the year to come, the economy's performance will depend on how central authorities manage erosion of their control over the economy, the level of labor and ethnic strife, the success of regime efforts to overcome the acute financial imbalance, and the course of marketization. In view of our assessment of the prospects for each of these variables, we believe that the economy will continue declining at an accelerating rate and there is a possibility of an economic breakdown (see inset, page 13). ~~(C/NF)~~

Erosion of Central Control

The transition from the command economy to a more decentralized market system will ultimately yield major gains in performance. In the short run, however, central controls have begun to wither before an effective new system has been put in place. The Communist Party is no longer able to enforce the state's economic orders; economic reforms have given state enterprises and farms the legal basis to resist the center; and the pursuit of independence and autonomy at the republic and enterprise levels have disrupted old supply and demand relationships. ~~(C/NF)~~

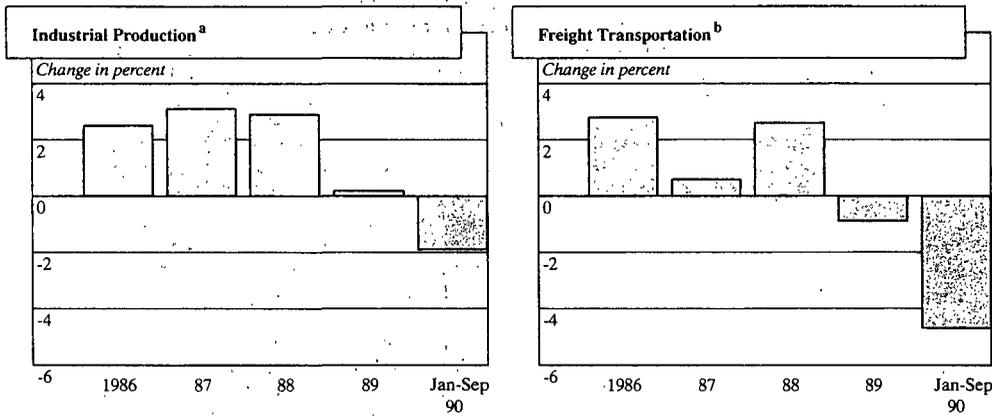
Over the next year, these trends are almost certain to continue, and the center could be weakened to a point where it would lose control of the allocation of vital goods such as energy, key industrial materials, and grain. Attempts by regional authorities to protect their populations from rampant shortages will worsen the current economic turmoil. At the same time, the interdependence of the republics and localities and the

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Figure 7
Soviet Economic Performance Down



^a CIA estimates.

^b CIA estimates except 1990, which is a Soviet official statistic.

NOTE: January-September 1990 is compared with January-September 1989.

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interest of the regional authorities in avoiding economic chaos will continue to argue for restraint against severing old relationships. (C-INT)

Labor and Ethnic Strife

Labor and ethnic problems over the past year have been major contributors to the USSR's economic turmoil. Poor living and working conditions, increasing shortages, and greater awareness of the workers of their lot have led to falling worker motivation and fueled labor and ethnic unrest. Because these problems are certain to get worse in the year to come, labor strife will continue, and faith in government solutions to labor problems will remain low. (C-INT)

The economy is most vulnerable to work stoppages in the transportation and energy sectors. The railroad system has virtually no slack capacity or substitutes. Strikes in this sector would immediately damage the already fragile supply network, grinding other sectors to a halt and probably leading to the use of the military to run the railroads. Similarly, an upsurge in unrest in a large republic such as the Ukraine or in the Great Russian heartland would be especially damaging to the economy. (C-INT)

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Economic Breakdown

A severe breakdown in the coordination between supply and demand is rare historically and has been a result of revolution, war, or disastrous economic policies. Under present circumstances, such a breakdown could be precipitated by massive popular unrest, regional autarky that destroys trade flows, a radical economic reform, or prolonged strikes of transport workers or workers in basic industries such as steel and energy. (C NF)

Indicators of such a breakdown would be:

- *A decline in GNP of at least 20 percent.*
- *Hyperinflation, massive bankruptcies and unemployment.*
- *Paralysis of the distribution system for both industrial and consumer goods.*
- *Dramatic flight from the ruble that results in barter trade or payment in hard currency.*

~~(C NF)~~

Financial Imbalance

Moscow has struggled unsuccessfully in the past two years to slow or reverse the growth of the excess purchasing power that has destabilized consumer markets. The key to reducing the dangerous backlog of excess purchasing power in the year ahead is to lower the budget deficit and proceed with price reform. Despite the stated intention of the Gorbachev reform program, however, it is doubtful that Moscow will move quickly in either area. Making a dent in this problem will require further cuts in state spending for investment and defense and reductions in social expenditures, particularly the huge subsidies for food. Moscow still fears popular reaction to price increases, however, and a large safety net is an integral part of the Gorbachev program. If the government continues to defer decisive action on these issues, the threat of a real financial crisis will deepen considerably and further complicate reform efforts. (C NF)

Market Reform

The Gorbachev program approved by the Supreme Soviet in October endorses marketization but fails to cut the bureaucracy immediately, thus making it easy for recalcitrants to block progress (see inset). The plan also sets no specific goals or timetables for denationalization of state assets. Although Gorbachev's advisers indicate that this lack of detail is designed to leave the republics free to work out the specifics of denationalization, the program's reliance on state orders and administered prices for at least another year will sharply limit the number of enterprises that could be denationalized. In addition, the plan's measures to stabilize the economy are misconceived—immediate large increases in wholesale prices and continuation of subsidies to consumers through 1992 will spur inflation and undercut deficit reduction. (C NF)

Overall, Gorbachev's program is a heavily political document aimed at garnering republic support while retaining substantial power for the center. It adopts a slower, more cautious approach on moving toward a market than the Shatalin Plan—supported by the Russian and other republics—and thereby probably runs less risk in the short term. The limitations of the Gorbachev program are such, however, that it is unlikely to deliver the promised economic gains and, as a result, over the longer term it will court greater political problems than the Shatalin Plan would have. As the program's deficiencies become apparent in the months ahead, the leadership is likely to consider more radical measures to achieve a transition to a market under even more dire economic conditions. With this program or any other that may be adopted, *it is impossible to overstate how difficult, painful, and contentious it will be for a large multinational state to move from a command to a market economy.* (C NF)

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<i>Key Elements of Gorbachev's Market Reform Program</i>			
<i>Timing</i>	<i>18- to 24-month conversion to market period in four stages but without a definite schedule for each stage.</i>	<i>Privatization</i>	<i>Republics control most assets in their territories and set pace. Republics decide issue of private ownership of land.</i>
<i>Center-republic powers</i>	<i>Both center and republics have budget and tax authority; center taxation requires republic concurrence. Center retains control over key exports for some period, shares hard currency revenues with republics.</i>	<i>Price reform</i>	<i>Increase wholesale prices according to government schedule; enterprise contracts to use these prices. State orders and central distribution, not prices, to determine most allocation.</i>
<i>Stabilization</i>	<i>Reduce deficit to 25-30 billion rubles—cut defense, investment, enterprise subsidies. Maintain key consumer subsidies. Finance deficit with bonds. Absorb ruble overhang with bond, consumer warrant sales; sales of some other state assets; and through increases in saving interest rates.</i>	<i>Foreign economic relations</i>	<i>Moves gradually toward ruble convertibility. Calls for increased latitude on foreign investment, including 100-percent foreign ownership of firms.</i>

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Four Scenarios

I wouldn't hazard a guess.

Izvestiya commentator's answer to US Embassy officer's question in July about how he envisioned the USSR in two to three years. (e)

The interaction of political, ethnic, and economic variables will determine the fate of the country over the next year: major deterioration in any one area

would severely strain the current system; breakdowns in all three would mean anarchy. Economic breakdown, in particular, would make crafting a new center-republic relationship next to impossible and markedly increase the likelihood of serious societal unrest. (C-NT)

A further diffusion of power from the center in all three areas—political, economic, and center-republic—is certain. Gorbachev's authority will continue to

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decline, although he will probably remain in office a year from now. Even under the most optimistic scenario, the Soviet domestic crisis will be far from resolved in one year's time. The turmoil will continue regardless of the policies pursued. Progress could be made in some areas. But the risk of sudden major discontinuities will remain, and it will take years—at least a decade or more—to find lasting solutions to the country's ills. (C NF)

Given the unpredictable nature of events in the volatile situation that prevails in the USSR today, we believe that four scenarios capture the range of possibilities during the next year: *deterioration short of anarchy; anarchy; military intervention; and "light at the end of the tunnel"* (see figure 1). These scenarios are analytical constructs describing overall directions the country could take over the next year and are not mutually exclusive. Some would be most likely to develop from one of the others. We believe that the "deterioration short of anarchy" scenario, which develops out of current trends, is more likely than any of the other three. There is, however, a significant potential for dramatic departures along the lines of the "anarchy" or "military intervention" scenarios. Conditions are such that the odds *strongly favor* some form of these "bad news" scenarios during the coming year. (C NF)

Deterioration Short of Anarchy

Current trends in the country and the enormous problems facing it in every sphere make this the most likely scenario over the next year, in our view. Intelligence Community analysts give this scenario a close to even probability. The economic, political, ethnic, and societal problems would continue to get worse at an accelerating rate. This scenario would be characterized by:

- Failure to agree upon and implement effectively a far-reaching marketization program; or the broad resistance of the population to such a course.
- Failure of the center and the republics to move to new mutually acceptable political and economic relations.

- Inability of political institutions to adapt to changing political realities and ineffectiveness of new democratically elected leaders in governing. However, a combination of the remaining powers of the old order—the party and government machinery and the security services—and the limited reforms the regime implements would prevent the entire system from collapsing. (C NF)

Some positive trends could also occur under this scenario but would not be likely to develop sufficiently to stem the country's rapidly declining fortunes during the next year. Gorbachev's ambivalence toward radical transformation of the system would end up delaying decisive action and diluting the effectiveness of steps his government takes. The non-Communist forces both in and out of government would not be able to form coalitions on a nationwide scale to give clear-cut direction. The complexities and social pain associated with putting a market reform plan in place would not even begin to restore confidence in the currency, reverse autarkic trends, or revitalize commerce, not to mention improve economic performance. The growing autonomy and self-confidence of non-Russians throughout the country would lead to escalating demands and make the achievement of a voluntary union much more complicated. (C NF)

This diffusion of power would lead during the next year to an increasing power vacuum. With the accelerating deterioration of central control and organizational weaknesses of the opposition, more power would be likely to move into the streets. Strikes and consumer unrest would almost certainly grow, the more so the more rapidly the economy declines. Ethnic unrest and violence would also increase. The security services and the military would be able to manage as long as protests remain scattered and uncoordinated. (C NF)

The key determinant of how long this scenario would persist is how long the economy can keep from collapsing under these conditions. *The longer this scenario prevailed, the greater the prospects would be for anarchy or military intervention.* (C NF)

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Anarchy

An accelerating deterioration is unlikely to continue indefinitely and could, during the next year, become a free fall that would result in a period of anarchy. Community analysts generally believe that the likelihood of this scenario is roughly 1 in 5 or less. Anarchy would be characterized by a breakdown of the economic system, collapse of central political authority, and widespread social upheaval. ~~(CONF)~~

Such an outcome could result from the interaction of a number of developments. In fact, any one development could trigger a cascade that eventually leads to a collapse of the system:

- A sharp acceleration of negative economic trends already in evidence—local autarky, severe food shortages this winter, numerous plant closings due to lack of fuel and supplies.
- Massive social protests or labor strikes that proved to be beyond the security and armed services' ability to control or resulted in large-scale civilian casualties.
- The assassination of a key leader, such as Gorbachev or Yel'tsin.
- The complete breakdown of relations between the center and the republics—particularly the Russian Republic.
- The outbreak of sustained, widespread interethnic violence—especially if directed against Russians. ~~(CONF)~~

There are several likely consequences of such a scenario:

- Gorbachev would not politically survive such an upheaval.
- The potential for severe food shortages and malnutrition would be high.
- The union would disintegrate. Most republics would break away from the center, potentially setting off civil wars and massive migrations.
- There probably would be various political outcomes (authoritarian, military dominated, democratic) in different regions of what is now the USSR. ~~(CONF)~~

The Departure of Gorbachev or Yel'tsin

The impact of their sudden departure from the scene would vary according to whether it occurred via assassination, death by natural causes, or political pressure—with assassination undoubtedly being the most destabilizing. But leaving aside the circumstances, what would their absence mean? ~~(CONF)~~

Gorbachev's departure two years—or even one year—ago, while the traditionalists still retained considerable strength in the leadership and the democratic reforms had barely begun to get off the ground, probably would have set back those reforms many years. His demise in the next year would be certain to throw the country into flux. The CPSU has no obvious successor who could wield the influence Gorbachev has, and the presidency would not be as influential a post without such a strong leader. At the same time, traditionalists could see an opportunity to make a comeback. The democratic and market reforms have now taken on a life of their own, however, beyond the control of even as formidable a figure as Gorbachev. The transformation of the Soviet system would take place in a more uncertain atmosphere in the immediate aftermath of Gorbachev's departure, but he is no longer "the indispensable man." ~~(CONF)~~

Yel'tsin has become the unofficial head of the democratic reform movement, and no one else in the movement currently has the stature to challenge Gorbachev. His departure would be a major setback to the movement over the next year but probably not a fatal one over the longer term. There are a number of other emerging democratic leaders who lack Yel'tsin's popular appeal but have other strengths that over time might enable them to play a national role. ~~(CONF)~~

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Military Intervention

Community analysts believe that the prospects for military intervention in politics are roughly the same as those for "anarchy"—1 in 5 or less. Besides Gorbachev's apparent extreme reluctance to use military force to deal with the country's problems, most Soviet leaders probably believe there is a strong danger that military intervention could accelerate the trend toward chaos and lead to the outbreak of virtual civil war. Problems in society, moreover, have had a debilitating effect upon the military, making it increasingly less suitable and reliable for use in putting down social unrest or enforcing unpopular government directives. ~~(C/NF)~~

Even so, under conditions of continuing deterioration, the likelihood of the military's becoming more involved in internal politics will grow as the leadership becomes more dependent on the Armed Forces and security services to maintain control. The traditional Russian desire for order could even foster a perception of the military among elements of the population as the key to national salvation in a time of growing chaos. Many senior military leaders share this view of the Armed Forces as the conservator of the Soviet state. *The chances for military intervention would increase markedly in a scenario where the country was on the verge of, or in, a state of anarchy.* ~~(C/NF)~~

Military intervention could take several forms: a military coup against the constitutional order, rogue activity by individual commanders, or martial law ordered by Gorbachev. Of these, Community analysts believe a coup—either the military acting alone or in conjunction with the security services and CPSU traditionalists—to be the least likely variant. Such an attempt would have to overcome numerous obstacles, including the difficulty of secretly coordinating the activities of the *many* units required for a successful putsch, the increasing political polarization of the Armed Forces, the military leadership's professional inhibitions against such a drastic step, and the fear of large-scale resistance by Soviet society. ~~(C/NF)~~

Only slightly more probable, in our view, would be independent action by local military units in the face of widespread violence that threatens or causes the collapse of civil government. In such an event, a

military district commander—operating independently of Moscow and possibly at the request of besieged regional authorities—could order his forces to restore control locally. Whether troops would obey under these conditions would depend greatly on local circumstances. Lacking clear direction and coordination, such independent military actions probably would not succeed for very long, except perhaps in a situation of countrywide anarchy. ~~(C/NF)~~

We believe that the most likely variant of military intervention would be one in which the central government in Moscow, believing it was losing all control of events and wanting to stabilize the situation, called on the military to impose martial law in selected areas and enforce government directives in the name of salvaging reform. Such an effort probably would be limited to Russia and a few other key republics. The High Command would try to execute such orders, seeing this as its duty to the state. If the conditions are severe enough, such military intervention might be welcomed by the local population and could stabilize the situation temporarily. Unless accompanied by a program offering solutions to the country's political, ethnic, and economic crises, however, the benefits from such a step would be transitory and probably counterproductive in the long run. ~~(C/NF)~~

"Light at the End of the Tunnel"

The prospects that progress toward the creation of a new system over the next year could outpace the breakdown of the old are also about 1 in 5 or less, in our view. This scenario would develop out of current pressure toward a pluralistic political system, self-determination, and marketization. Such trends, while not ending the societal turmoil, might gather sufficient steam to improve prospects for long-term social stability. Economic hardship would increase as movement toward a market economy began and enormous difficulties in creating a new political order would lay ahead, but a psychological corner would be turned to give the population some hope for a brighter future. ~~(C/NF)~~

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In order for this scenario to play out, there would have to be substantial progress toward:

- Developing a new set of relationships that would allow the republics to deal constructively with each other, the center, and the outside world.
- The filling of the political power vacuum by new political institutions and parties. Key political leaders would need to work together constructively.
- Establishing new economic relations based on the market.
- Changing the mood of the Soviet population from one of fear of impending disaster to one of hope. Without such a change in the psychology of the population, a successful transition to the market and democracy would be almost impossible. ~~(C-NT)~~

The economy would also have to avoid a decline so precipitous as to cause unmanageable social unrest. Progress toward market reform and republic autonomy will be difficult enough to achieve with the certain dropoff in economic performance. A dramatically shrinking economic pie would make unilateral steps by the republics to assert their economic independence more likely. It would also increase the prospects for widespread consumer and labor unrest. If not effectively managed, such developments could break any government. ~~(C-NT)~~

Implications for the United States

Whichever scenario prevails, the USSR during the next year will remain an inward-looking, weakened giant with a declining ability to maintain its role as a superpower. The domestic crisis will continue to pre-occupy any Soviet leaders and prompt them to seek, at a minimum, to avoid confrontation with the West. But the particular foreign policies they pursue could vary significantly depending on the scenario. ~~(C-NT)~~

Under the "deterioration short of collapse" or "light at the end of the tunnel" scenarios, Moscow's Western orientation probably would be reflected in continued, possibly greater, Soviet willingness to compro-

mise on a range of international issues. The Soviets would be *very likely* to continue:

- Deepening the growing economic and political relationships with the United States, Western Europe, and, to a lesser extent, Japan.
- Negotiating ongoing and new arms control agreements.
- Cooperating in crafting a new European security order.
- Reducing military and economic commitments in the Third World and expanding cooperation with the United States there.³ ~~(C-NT)~~

In these scenarios, Soviet as well as republic interest in Western economic involvement would continue to expand rapidly. The liberalization of laws on joint ventures, property ownership, and personal entrepreneurship create improved conditions for Western investment. However, uncertainties over prospects for market reform, the role of the central versus the republic governments in such areas as banking and foreign trade, and the ongoing turmoil in Soviet society will make significant investment a risky venture for Western firms and make it unlikely that many will commit much to the effort. ~~(C-NT)~~

The central and republic leaders also appear not to have thought through what forms of Western aid or investment they would like, the scale of assistance, or the timing. Proposals range from a "modern Marshall Plan," to Soviet inclusion in international financial organizations, to technical assistance for marketization. The USSR faces serious structural and societal obstacles, however, that would dilute the impact of most forms of foreign aid except for technical assistance. Recent experience has shown that the country's transportation and distribution networks are ill equipped to move large quantities of imports efficiently. Wide-scale corruption and black-marketeering further diminish the system's capabilities to get goods to their destinations. If Moscow moves decisively toward

³ These issues will be addressed more fully in the forthcoming NIE 11-4-91, *Soviet National Security Strategy in the Post-Cold-War Era.* ~~(C)~~

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a market economy, Soviet leaders will press the West and Japan even harder for assistance to cushion the transition. ~~(S)~~

Internal *political* developments may also push Gorbachev to conclude agreements with the West as quickly as possible. Assertions of autonomy by republics in the areas of economics and defense will increasingly challenge his authority to speak on behalf of the USSR. The diffusion of power is bringing new actors to the scene who will attempt to develop their own relations with Western states, especially in the economic sphere. Special requests for consultations, technical assistance, emergency aid, and trade from republic governments are likely to increase. Unless political conflict over who owns resources and controls foreign trade is resolved, both US governmental and private business relations with the USSR and its republics will be complicated. Those direct Western contacts with the republics disapproved of by Moscow would be perceived as interference and could result in steps by the central government to block Western assistance to republics and localities. ~~(S)~~

An "anarchy" scenario would create precarious conditions for relations with the West and would present the United States with some difficult choices. Various factions would declare independence or claim legitimacy as a central government and push for Western recognition and assistance—including military aid. Each Western government would be faced with the dilemma of which factions to deal with and support. If the situation evolved into civil wars, the fighting could spill over into neighboring countries. Eastern Europe and Western countries would be inundated with refugees, and there would be enormous uncertainties over who was in control of the Soviet military's nuclear weapons. ~~(S)~~

Under conditions of anarchy, a coherent Soviet foreign policy would be highly unlikely, and Soviet ability to conclude ongoing arms control negotiations, implement accords already reached, and carry out troop withdrawals from Eastern Europe would be

undercut. Troop withdrawals from Germany, for example, could be delayed or stymied by transport disruptions or by wholesale defections of Soviet troops eager to escape the turmoil awaiting them in the USSR. ~~(S)~~

In a "military intervention" scenario, a military-dominated regime would take a less concessionary approach than Gorbachev's on foreign policy issues and pursue a tougher line on arms control issues because of the military's current misgivings about CFE, START, and the changes in Eastern Europe. Moreover, such a regime probably would diverge significantly from current policy on Jewish emigration and be less inclined to support the presence of US military forces in the Persian Gulf region. Such policy shifts could undermine the entire panoply of Soviet political, economic, and military ties to the West. A military regime, however, would be too busy attempting to hold the USSR together to resume a hostile military posture toward the West, although further shifts in resources away from the defense sector could be halted. Such a regime would be unable to restore Soviet influence in Eastern Europe but would be likely to take a tougher line on economic issues and would make East-West cooperation in the region more difficult. ~~(S)~~

5. Central Intelligence Agency, Office of Soviet Analysis, April 1991, "The Soviet Cauldron"

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The Soviet Cauldron

25 April 1991

1. Economic crisis, independence aspirations, and anti-Communist forces are breaking down the Soviet empire and system of governance:

- Boris Yel'tsin has become the archfoe of the old order and has a good prospect of becoming the first popularly elected leader of Russia in history, acquiring the legitimacy that comes with such a mandate.
- In the Ukraine, the union's second largest republic with 50 million inhabitants, the drive for sovereignty is picking up speed.
- Belorussian authorities have recognized and begun negotiations with the strike committee that is opposed to continued rule by the republic's own Communist Party as well as the Kremlin.
- The Baltic republics are using the uneasy calm between themselves and the Kremlin to solidify new institutions and the support of nonnative populations, primarily Russians, for independence.
- Georgia has declared its independence, and all the other republics are insisting on much greater local power.
- The striking miners are persisting in their demand not just for economic benefits, but for structural economic and political change as well. Their call is now resonating in other industrial sectors.
- The centrally-planned economy has broken down irretrievably and is being replaced by a mixture of republic and local barter arrangements, some of whose aspects resemble a market, but which do not constitute a coherent system.

This document was prepared by the Central Intelligence Agency, Directorate of Intelligence, Office of Soviet Analysis.

This document was prepared for NSC, Ed Hewett.

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- The center's reassertion of control over central television has not stifled the birth of new radio and TV companies and of some 800 new independent newspapers that are filling the news breach.
- The Communist Party of the Soviet Union (CPSU) is breaking up along regional and ideological lines. A still inchoate but growing system of new parties is arising. ~~(S-NF)~~

2. In the midst of this chaos, Gorbachev has gone from ardent reformer to consolidator. A stream of intelligence reporting and his public declarations indicate that Gorbachev has chosen this course both because of his own political credo and because of pressures on him by other traditionalists, who would like him to use much tougher repressive measures. His attempts to preserve the essence of a center-dominated union, Communist Party rule, and a centrally-planned economy without the broad use of force, however, have driven him to tactical expedients that are not solving basic problems and are hindering but not preventing the development of a new system:

- The union referendum with its vaguely worded question is turning out to be a glittering nonevent and is having no impact on the talks for a new union treaty.
- The newly unveiled anticrisis program contains the government's umpteenth economic plan and, like its predecessors, holds out the promise of reform following a stabilization program that will not work.
- In a successful effort to dominate its proceedings, Gorbachev has expanded the Federal Council into a massive group of varying membership. This stratagem has undermined the one institution that, under its original design of membership for the presidents of the union and the republics, could have become a forum for airing out and settling disputes.
- As a result of his political meandering and policy failures, Gorbachev's credibility has sunk to near zero. Even some of his closest, newly found, traditionalist colleagues are distancing themselves from him. In a recent poll, a majority of respondents--52 percent--selected hypocrisy as the trait that best describes him. ~~(S-NF-NO-OC)~~

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3. Gorbachev has truly been faced with terrible choices in his effort to move the USSR away from the failed, rigid old system. His expedients have so far kept him in office and changed that system irretrievably, but have also prolonged and complicated the agony of transition to a new system and meant a political stalemate in the overall power equation.

-- The economy is in a downward spiral with no end in sight, and only luck can prevent the decline in GNP from going into double digits this year.

-- Inflation was about 20 percent at the end of last year and will be at least double that this year.

-- The continued preference given to reliance on a top-down approach to problems, particularly in regard to republics, has generated a war of laws between various levels of power and created a legal mess to match the economic mess. ~~(G-NF)~~

4. In this situation of growing chaos, explosive events have become increasingly possible.

-- Public anger over deteriorating economic conditions could produce riots or massive strikes, particularly in the newly disadvantaged industrial center of the Slavic republics with their large labor populations.

-- A failed maneuver by the central government, such as the violence in Vilnius in January, could give new impulses to antigovernment forces that would attract Western sympathy.

-- Gorbachev, Yel'tsin, and other lesser but nevertheless important leaders could die under the incredible strains in which they work or be assassinated with incalculable consequences.

-- Some potent new leader could arise in one or more places, much as Walesa in Poland or Landsbergis in Lithuania, and begin to make history.

-- Reactionary leaders, with or without Gorbachev, could judge that the last chance to act had come and move under the banner of law-and-order. ~~(G-NF)~~

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5. Of all these possible explosions, a premeditated, organized attempt to restore a full-fledged dictatorship would be the most fateful in that it would try to roll back newly acquired freedoms and be inherently destabilizing in the long term. Unfortunately, preparations for dictatorial rule have begun in two ways:

- Gorbachev may not want this turn of events but is increasing the chances of it through his personnel appointments; through his estrangement from the reformers and consequent reliance on the traditionalists whom he thereby strengthens; and through his attempted rule by decree, which does not work but invites dictatorship to make it work.
- More ominously, military, MVD, and KGB leaders are making preparations for a broad use of force in the political process:
 - Through speeches, articles, and declarations, various leaders have laid the psychological groundwork. Kryuchkov has denounced foreign interference and argued that the military's help is sometimes necessary in restoring internal order. Akhromeyev has called for a strong hand. Yazov has issued public orders permitting the use of firearms allegedly to defend military installations and monuments; although admitting that the Vilnius garrison commander should not have acted the way he did, he failed to discipline him for the killing of innocent civilians. Ground Forces Commander Varennikov called for a tougher policy in the Baltic republics at a Federation Council meeting, and a number of commanders have either petitioned Gorbachev for tough measures or called for them in large meetings.
 - The Communist Party is doing its utmost, with Gorbachev's approval, to retain its leading role in the military by retaining the structure of the Main Political Administration while modifying its external appearance--in essence a change in name only. Party conferences have been held at the all-Army level and below to institutionalize the new structure. They have almost certainly been used as well to propagandize the need to retain a center-dominated union at all cost.
- A campaign to retire democratically inclined officers or at least move them out of key positions has been going on for some time. More recently a sensitive source reported that Yazov had ordered

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the Western Group of Forces (based in Germany) to form units of particularly reliable troops to do whatever was necessary to preserve the union. Although we lack direct evidence, it is highly likely that similar activity is going on in the military districts within the USSR.

- The deployment into Moscow on 28 March of some 50,000 troops from the Army and the MVD, with KGB participation, went smoothly, indicating that a command structure for such an operation has been set up.

It is probably the totality of these psychological and actual preparations for the use of force that moved Shevardnadze to reiterate his warning that "dictatorship is coming." ~~(E-NF)~~

6. Should the reactionaries make their move, with or without Gorbachev, their first target this time would be Boris Yel'tsin and the Russian democrats.

- Yel'tsin is the only leader with mass appeal and with support outside his own republic, most importantly in the Ukraine.

- He is gradually and with much difficulty maintaining Russia's drive for autonomy.

- Those who would preserve a center-dominated union know they cannot do so if Russia escapes their control. ~~(E-NF)~~

7. Any attempt to restore full-fledged dictatorship would start in Moscow with the arrest or assassination of Yel'tsin and other democratic leaders such as Mayor Popov and Deputy Mayor Stankevich; the seizure of all media and restoration of full censorship; and the banning of all gatherings enforced by an intimidating display of force. A committee of national salvation--probably under a less sullied name--would be set up and proclaim its intent to save the fatherland through tough but temporary measures that would pave the way for democracy and economic reform.

8. The long-term prospects of such an enterprise are poor, and even short-term success is far from assured:

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- The number of troops that can be counted on to enforce repression is limited.
- The cohesion of the participating forces would be hard to sustain if, as is likely, the democrats refused to fade away.
- Any action against Yel'tsin would spark activity in other places, and security and military forces would be spread thin in any attempt to establish control over other Russian cities. ~~(S-NF)~~

9. Even if the putsch works in Russia, a number of other republics would make use of the turmoil for their own ends. If it did not collapse rapidly, the attempted authoritarian restoration would fail over the next few years. Its putative leaders lack any constructive program and would not have the economic resources, nor most likely the political savvy, necessary to make dictatorship stick. It would probably run its course much as martial law did in Poland, with the added element of secessions, but would almost certainly entail more bloodshed and economic damage along the way. ~~(S-NF)~~

10. Even a putsch is not likely to prevent the pluralistic forces from emerging in a dominant position before the end of this decade. They are blunting the center's drive against them and consolidating their own regional holds on power, while the traditionalist forces, which still control the government and other central institutions, increasingly discredit themselves because they lack a viable, forward-looking program. ~~(S-NF)~~

11. Such slow progress by the pluralist forces, however, leaves them at risk for several years to a putsch and to popular disenchantment with them for failing to produce rapid improvements. Knowing this, they are likely to intensify their push for a breakthrough involving most importantly a union treaty that gives the republics considerable say over the policies of the central government. They might succeed. Even Gorbachev himself is not yet totally lost to their cause. Faced with the choice of throwing in irrevocably with the traditionalists, who hate him and do not share his aversion to the use of outright force, or tacking back toward the reformers, he might still choose the latter course. Despite this policy of repressive retrenchment, after all, the central government is also condoning or even initiating some actions that could lay the groundwork for the restart of a reformist effort:

- A number of laws necessary for the establishment of a market system have been passed.

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- Gorbachev's advisor Shakhnazarov and Yel'tsin have both talked about the desirability of a national roundtable, although with very different declared purposes.
- The central and Russian governments are at least establishing, albeit extremely slowly, the mechanisms for settling differences and responsibility about military and KGB issues, primarily through Col. General Kobets' Russian Committee on Defense and Security.
- Similarly a collegium of republic foreign ministers under the chairmanship of the USSR foreign minister has been created.
- Talks with the Baltic Republics have started, although again with much difficulty and with the two sides totally at odds over their ultimate purpose.

So far, these various actions have not had any operational significance. Nor will they if the central government persists with its current policy objectives. But if it were willing to change its policy direction, these actions have the potential for creating a way out of the current stalemate. ~~(C-NF)~~

12. The reformers would most likely seize upon any such effort to retard the chances of intensified repression and then try to turn it into a strategic breakthrough. With or without Gorbachev, with or without a putsch, the most likely prospect for the end of this decade, if not earlier, is a Soviet Union transformed into some independent states and a confederation of the remaining republics, including Russia. This confederation will have the size, economic resources, and accumulated hardware to remain a major military power, but its decentralized nature will prevent it from replicating the militaristic, aggressive policies of yesteryear. ~~(C-NF)~~

13. The current Soviet situation and the various directions in which it could develop over the short term present us with three possible Soviet Unions over the next year:

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-- Continuation of the current political stalemate would maintain the current Western dilemma of developing the proper mix of relationships with contending forces. The dilemma would probably sharpen because the struggle is likely to intensify and the economy to spiral downward at an ever faster rate. Social explosions such as the current miners' strike and the Belorussian flareup would occur and could transform the situation into major violence or martial law at any time. Short of this, the USSR would be more and more of an economic basket case and Gorbachev a spent force who would multiply his appeals for Western assistance. Although the USSR might still try to take some new initiative on the international scene, such as in the Middle East and in the arms control sphere, its growing instability would greatly diminish its diplomatic clout and probably prevent it from effectively advancing its agenda. Its growing instability will have a negative effect on Eastern Europe in the form of lost economic interaction and inability to develop a new basis for Soviet-East European relations.

-- An attempt at the restoration of dictatorship would face the West with a repetition of Poland 1981, but almost certainly with more brutality and bloodshed. The country would still be an economic basket case. The new regime would pledge to maintain a cooperative policy toward the world and most likely continue troop withdrawals from Eastern Europe, probably with even greater attempts at extortion. In reality there would be greater foreign policy truculence, but this USSR could not regain its previous influence in the world nor its position in the Third World. It would, however, attempt greatly to step up arms sales for cash; look for gains in the Middle East at US expense; and may well work with fifth columns in Eastern Europe in an attempt to subvert those developing democracies. Some in Western Europe would argue that this domestic retrenchment might be regrettable but that Gorbachev, or whoever was in charge, really had no choice but to restore order and that the best way to influence the situation toward the better (and save whatever Western investments and credits that had been advanced) was through continued cooperation coupled with symbolic

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gestures of disapproval. Unless brutality reached a level much higher than it did at Tiananmen Square, a Western consensus on either interpretation of events or policy would be highly unlikely.

-- An accelerated breakthrough by the pluralists would create the best prospects for internal and external stability based on cooperative arrangements. But this pluralist victory would also bring problems of another sort. The ability of pluralist forces to rule effectively is unproven and might not be assured for quite some time, probably a generation. The nationality problem could not be settled overnight, and there would be tensions within and between republics over the most desirable politicoeconomic system. Some of the republics would not be governed by democrats, but all republics would lay claim to US assistance. New leaders who would have prevailed because of their domestic appeal and single-minded determination would not have much experience in foreign affairs and would probably make exaggerated demands, much as is already happening with some of them. Despite these difficulties and the likely lengthy process of internal and external adaptation to new rules of behavior, this breakthrough, particularly if it occurred in the Slavic core, would present the best prospects for an East-West reconciliation analogous to that which has brought Franco-German relations to what they are today. (S)
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6. NIE 11-18-91, June 1991, *Implications of Alternative Soviet Futures*



Director of
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Implications of Alternative Soviet Futures

National Intelligence Estimate

*This National Intelligence Estimate represents
the views of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*

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NIE 11-18-91

Implications of Alternative Soviet Futures *et*

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The Office of the Director of Naval Intelligence,
Department of the Navy
The Office of the Assistant Chief of Staff, Intelligence,
Department of the Air Force
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*This Estimate was approved for publication by the
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6. (Continued)

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Figure 1
Scenarios for the USSR
Over the Next Five Years

<p>Chronic Crisis</p>	<p>Continuation of current situation</p> <p>Neither entire collapse of system nor substantial progress toward resolution of country's problems</p> <p>Continued devolution of power below but unable to govern</p> <p>Political gridlock</p> <p>Economy would verge on breakdown but somehow manage to limp along</p> <p>Scenario unlikely to last next five years</p>	
<p>System Change</p>	<p>System replaced with relatively little violence</p> <p>Slavic and Central Asian core state: smaller, less militarily powerful, more pluralistic than USSR</p> <p>Baltic states, Georgia, Armenia, and Moldova become independent</p> <p>Economies of all troubled, but moving rapidly toward market</p> <p>Government increasingly reflects popular will, but may not survive economic disarray</p>	
<p>Regression</p>	<p>Hardliners in military, security services, and CPSU impose martial law type regime</p> <p>Democratic reform and republic independence drives halted</p> <p>Strong nationalist and reformist pressures remain</p> <p>Economy's downward spiral accelerates</p> <p>Scenario unlikely to last long</p>	
<p>Fragmentation</p>	<p>Violent, chaotic collapse of system</p> <p>Republics become independent</p> <p>Some governments reflect popular will, others more authoritarian</p> <p>Warfare within and between many republics</p> <p>Economic conditions deteriorate dramatically; barter main form of economic interaction; famine widespread</p>	

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Key Judgments

Implications of Alternative Soviet Futures ~~(S)~~

The USSR is in the midst of a revolution that probably will sweep the Communist Party from power and reshape the country within the five-year time frame of this Estimate. The outcome of this revolution will be affected by a number of factors, including the following:

- A sharply declining economy and standard of living that will get worse for the next few years no matter what economic program is adopted.
- The difficulties in implementing a market reform program and sustaining it against a likely popular backlash.
- Continued devolution of power to republic and local governments at the expense of the central government.
- The rising claim of nationalism on defining the state and legitimizing its policies.
- The increasing importance of popular expectations and aspirations, and the government's abilities to meet them, on a wide range of issues—including living standards and personal freedom. ~~(C NF)~~

No one can know what the duration or the ultimate outcome of the revolution will be—particularly in a society where repression and centralized control have been the rule, and the culture has been resistant to change, but where recently, democratic aspirations appear to have become widespread. ~~(C NF)~~

Of the many conceivable outcomes, we believe four scenarios span the range of possibilities: a continuation of the current "chronic crisis" with no political resolution; a relatively peaceful "system change" into a smaller, more pluralistic and voluntary union in which the central government relinquishes substantial power; a chaotic and violent "fragmentation" of the country resulting in many new states with widely varying political and economic systems; and a "regression" through renewed repression into an authoritarian state run by a combination of hardliners in the military, security services, and Communist Party (see figure 1).¹ ~~(C NF)~~

¹ The approach taken by the Intelligence Community in this Estimate is intended to be more speculative, and less predictive, than in previous estimates on political developments in the USSR. We focus on a range of possible outcomes and their implications for both the USSR and the West, rather than on current developments. Although the

scenarios we use to describe these outcomes are very similar to the four used in NIE 11-18-90 ~~(Secret NF NC)~~, November 1990, *The Deepening Crisis in the USSR: Prospects for the Next Year*, they are meant to be "ideal cases" in order to make the distinctions between them clear. The reality is certain to be much more complicated. ~~(S NF)~~

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Figure 2
Implications of Scenarios
for Key Issues

Issues	Scenarios			
	Chronic Crisis	System Change	Regression	Fragmentation
Policy toward the West	Accommodation, but increasingly erratic policy Will seek economic assistance/engagement and accept some conditionality	Would seek full-scale accommodation, inclusion in European security structures Would seek economic assistance/engagement and accept conditionality	Wary, but would seek to avoid confrontation Would not expect economic assistance	No coherent policy Many governments in republics and regions that break away would seek close ties, military and economic assistance
Military posture	Continued gradual reduction in military capabilities Deteriorating economy could lead to deeper cuts "Defensive" doctrine maintained	Slavic and Central Asian core: significantly reduced military; would remain nuclear super-power; increased emphasis on "defensive" doctrine Independent 6: Small militaries; a threat only to small neighbors	Would seek to maintain Soviet military strength, within constraints of deteriorating economy Increased emphasis on counteroffensive capabilities	No coherent military doctrine or threat to West But possible loss of control over nuclear weapons would lead to dangerous, unpredictable situation Most military power vested in Russia
Arms control	Continued pursuit of new agreements, but within old frameworks Increasing disarray and periodic ascendancy of hardliners would complicate progress Adherence to agreements likely	Slavic and Central Asian core: vigorous pursuit of wide-ranging arms reduction treaties Independent 6: Would seek to join CSCE arms control and confidence-building process Adherence to agreements not an issue	Might enter negotiations, but only on Soviet terms Willingness to adhere to existing agreements increasingly doubtful	No coherent policy Unable to ensure compliance with existing agreements
Policy toward Eastern Europe	No military threat, but would continue to push for neutral Eastern Europe	No military threat Basis for new cooperative relationships between various new states and Eastern Europe Would not oppose East European entry into European security structures	Unlikely to threaten militarily But could stall on withdrawal from Poland Would push hard for neutral Eastern Europe Might use energy deliveries as leverage	Massive numbers of refugees Potential spillover of civil war Potential clashes over Moldova, Kaliningrad, western Ukraine and Belorussia
Forces in Germany	Potential point of instability Would offer to remove them earlier in return for German economic sweetener	Would be willing to bring them home more quickly Issue not likely to be troublesome	Internal political situation would have destabilizing effect on WGF Increase in defections Hardline leadership could threaten to delay withdrawal	Breakdown of discipline, unit cohesion Thousands of defectors

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6. (Continued)

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This Estimate's focus is on the content and implications rather than on the relative probabilities of such scenarios. The USSR could pass through any or all of these scenarios during the next five years. Nevertheless, we believe that, on the basis of current trends and our assessment of the critical variables—particularly the bleak prospects for the economy—the country is much more likely to be in a "system change" or "fragmentation" scenario five years from now than to remain where it is today in "chronic crisis." In our view, an attempt to impose the hardline regime of the "regression" scenario becomes more likely as the country verges on "system change" or "fragmentation," but, of the four scenarios, this is the least likely to be a lasting outcome. In any event, we believe that the USSR in its present form will not exist five years from now. ~~(CONF)~~

There will be profound effects on the geopolitical balance in Eurasia whatever the outcome. "System change," the most favorable scenario for the USSR and the West, would leave the USSR somewhat smaller than it is today and still a nuclear superpower, but this Slavic-Central Asian state would have adopted a political and economic system much more conducive to close ties to the West. Even so, the difficulties associated with such a transformation over the longer term may be too heavy a burden for the government and population to bear. ~~(CONF)~~

The geopolitical shift would be most drastic in a "fragmentation" scenario, where the country broke apart in a chaotic fashion. Some form of a Russian or Russian-dominated state would eventually emerge out of the chaos, but for a good many years it would be a far less influential actor on the world scene than today's Soviet Union, and it would be bordered by many new countries of varying stability and military strength. ~~(CONF)~~

The ability of Western governments to influence the course of events inside the USSR is likely to grow in the "chronic crisis" and "system change" scenarios and in the *aftermath* of a "fragmentation" scenario:

- The country's crumbling economy will increase the likelihood that any government, except one led by hardliners, will turn to the West for aid and accept some degree of economic and political conditionality in return. The need for such aid would give most national and republic leaders an incentive to avoid repressive measures.
- Even though the upper limits of what the West might realistically offer would fall far short of the country's total capital needs, such aid could play an important role in moving the country toward "system change"; that is, the transition toward a market economy and a more pluralistic political system.

6. (Continued)

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- Western assistance could play an important role in the newly independent Baltic republics, simply because of their much smaller size. On the other hand, local and regional instabilities in the Transcaucasus and Central Asia are likely to limit Western inclination to provide assistance to these republics. ~~(S-REF)~~

With the exception of the "system change" scenario, the West would face major obstacles in actually exerting influence. In a "chronic crisis" scenario, which the USSR is in today, aid for political and economic reform would be hard to channel into projects that would benefit long-term growth and could get caught in a struggle for power between the center and the republics. In this, and particularly in the "fragmentation" scenario, the gathering political and economic disarray would make it more difficult to determine whom to aid, how to get it to them, and how to follow up to ensure the aid had its intended effect. ~~(S-REF)~~

The aftereffects of increased instability or repression would also pose challenges to the West:

- The East Europeans, the Turks, and the Nordic countries would turn to the United States and other major Western powers for assistance in coping with refugees, instability on their borders, or a military-led government in Moscow.
- In a "fragmentation" scenario, various factions or republics could gain access to and control of nuclear weapons and threaten to use them against internal rivals or other countries. Although any Western involvement would depend on a number of variables, timely Western offers of assistance in securing and/or disposing of such weapons could have pivotal effect.
- Seizure of control by hardliners in a "regression" scenario would lead to an increase in East-West tensions, a greatly diminished interest in arms control and other negotiations, and a slowing in the reduction in the capabilities of the Soviet military.
- Violence at home could spread to the Soviet troops that are due to remain in Germany until the end of 1994. ~~(S-REF)~~

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Discussion

Chronic Crisis

This scenario assumes a continuation of the current crisis with neither an entire collapse of the system nor substantial progress toward resolution of the country's problems. Gorbachev might manage to hang on to power in a weakened central government because neither the left nor the right would have enough strength to oust him, but, even if he left the scene, neither side would gain the upper hand. The country goes from one system-threatening crisis to another. Despite the turmoil, much backtracking, and political stalemate at the top, the trend is toward more autonomy for the republics and a market-based economy, but in a bottom-up and relatively chaotic way. The command economy verges on breakdown but somehow manages to limp along. (C-INT)

Implications for the USSR

The current situation in the USSR is best described by this scenario. This is a highly unstable scenario. Although there would be some continued movement toward a pluralistic system, a voluntary union, and a market economy, governmental authority would weaken, and the potential for major popular upheavals would grow. It is unlikely this scenario could prevail for the five years of this Estimate. Indeed, a transition to one of the other three scenarios of "system change," "fragmentation," or "regression" is likely earlier rather than later in this period. (C-INT)

If Gorbachev remained in office, he would become less and less powerful. Neither the left nor the right would prevail, but both would remain strong enough to pose a serious threat to Gorbachev and to each other. The potential for large-scale intervention into politics by the security services and the military would continue to hang over the country. Although less likely, this scenario could still exist if Gorbachev is removed constitutionally, decides on his own to step down, or dies a natural death. Whoever is in charge, the central government would continue to lose authority, although without Gorbachev this would occur more quickly. (C-INT)

Indicators of "Chronic Crisis"

- *Economy continues to deteriorate, but command economy does not collapse.*
- *Center/republics discussions on economic stabilization/reform plan drag out without resolution (or they agree and the plan fails); center pursues ineffective ad hoc policies; republics try to implement individual economic programs.*
- *Central government remains viable but power steadily erodes.*
- *Center/republics unable to resolve key differences concerning powers of national and republic governments.*
- *Political polarization grows, but neither right nor left are strong enough to become dominant.*
- *Violence continues but at relatively low levels; periodic incidents of regional repression occur.*
- *Military and security services act more independently but shrink from a coup. (C-INT)*

The republics would gather a good deal of the authority the center lost but still would not be able to govern effectively. None would be fully independent, but many—the Baltic states, Georgia, Armenia, and Moldova—would remain tethered to the union only by the continued presence of Soviet troops and the vestiges of the central command economy. Russia would gain greater control over its own affairs

6. (Continued)

and increased influence with other republics, but it would not yet be strong enough to transform the center to its liking or assume all of the central government's former authority within the RSFSR. Yel'tsin's strength in Russia and the USSR would grow, at least initially, but he would be hamstrung by the center's continuing ability to limit the RSFSR's economic sovereignty, by infighting within his own camp (abetted by the KGB), and by demands of non-Russians in the republic for greater autonomy or independence.

With no resolution of the center-republic relationship, there would be no hope of stabilizing or reversing the economic slide. GNP would drop dramatically, and the country would face worsening shortages of industrial materials, consumer goods, and food. Inflation and unemployment would skyrocket; strikes would proliferate. Significant human suffering would develop in some areas. Foreign credits would dry up as the country failed to meet debt service payments; Western companies—scared off by the growing political and economic chaos—would take their business elsewhere. Nevertheless, the economy would avoid collapse through a major expansion of independent arrangements and barter deals that republics, enterprises, and individuals made with each other.

The economic disarray and growing republic autonomy would accelerate the trend toward reduced military capabilities. The military leadership would try to ensure that the drop in allocations to the military was not dramatic, but the trend would still be decidedly downward because the military economy would not be insulated from the accelerating decline. The republics' quest for greater autonomy or independence would exacerbate the Soviet armed forces' manpower and morale problems. Modernization of Moscow's strategic forces would continue within the limits of a START treaty, but even these forces would increasingly be affected by the economy's dismal performance.

Implications for the West

In this scenario, the ability to conduct foreign policy by whoever leads the central Soviet government would be constrained by the turmoil at home. Western governments would find Gorbachev or a successor not

only preoccupied by the domestic crisis but also less and less able to ensure that the USSR is capable of fulfilling the foreign commitments it makes. Nevertheless, any Soviet regime in this scenario probably would still seek accommodation on a range of international issues and almost certainly would want to avoid confrontation. The Soviets would be likely to continue:

- Deepening the growing economic and political relationships with the United States, Western Europe, and, to a lesser extent, Japan.
- Negotiating ongoing and new arms control agreements.
- Cooperating in crafting a new European security order.
- Reducing military and economic commitments, while expanding cooperation with the United States, in the Third World.

Whatever the Soviet Government's *intentions*, the economy's rapidly decreasing ability to support a massive military, the likely increased involvement of the Soviet army in quelling domestic unrest, and the general lack of cohesion within the country would seriously limit the USSR's *capability* to threaten its neighbors or the West. The Soviet Union would almost certainly complete its withdrawal of forces from Eastern Europe, possibly more quickly than scheduled. The leadership would have every incentive to adhere to the terms of the CFE and START treaties and probably would seek further arms reductions to lighten the military burden on the economy.

In this scenario, Soviet as well as republic interest in Western economic involvement would continue to expand rapidly. The deteriorating economy would ensure that the central government would continue to seek access to Western economic institutions and be on the West's doorstep for loans, credits, and general economic assistance, although it would not be able to repay such assistance

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as interference and could result in attempts by the central government to block Western assistance to republics and localities. ~~(C-INT)~~

System Change

This scenario assumes that the existing political system is replaced with relatively little violence. This occurs with the old regime's dissolution as a result of republic or popular pressure—as in Czechoslovakia in 1989—or through agreement between the center and the republics. In either case, a loose federation or confederation of the Slavic and Central Asian republics emerges, and independence is granted to those republics seeking it. The political and economic systems that emerge in the core Slavic-Central Asian state and the independent states vary widely. ~~(C-INT)~~

Implications for the USSR

The level of instability in this scenario would depend on the manner in which the system was changed. If it collapsed due to internal pressure, the instability initially would be greater: new governing mechanisms would have to be created in the midst of revolution, and many elements of the old system—while defeated—would remain capable and desirous of complicating the transition to a new system. A voluntary sharing of power by the center would be more stable, although, even in this variant, the new systems that emerged from what was the USSR would encounter problems much more serious than those now being experienced by post-Communist regimes in Eastern Europe. ~~(C-INT)~~

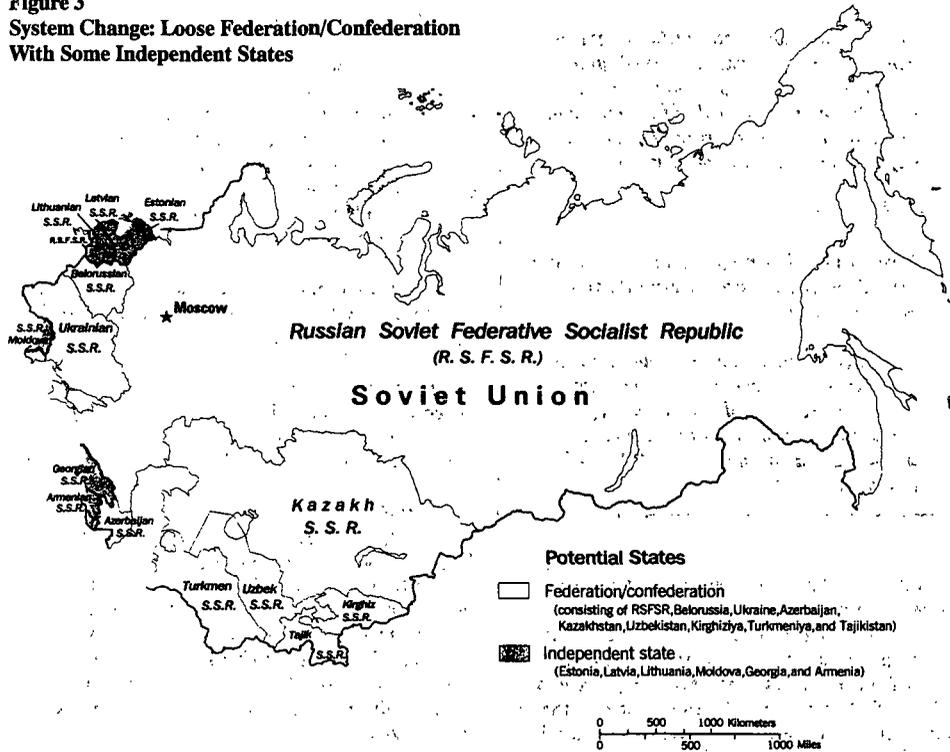
The newly transformed core state that emerges in this scenario would reflect the political and economic trends in Russia and, to a lesser extent, in the Ukraine. As such, it—particularly its Slavic portion—would have, at least initially, a much more pluralistic political and economic system than ever before. It would have a popularly elected parliamentary government with numerous political parties. While the role of the state would remain large, its authority would depend much more than heretofore on popular acceptance. The government's respect for human rights

Special requests for consultations, technical assistance, emergency aid, and trade from republic and local governments are likely to increase. Without political resolution of the conflict over who owns resources and controls foreign trade, both US governmental and private business relations with the USSR and its republics will be complicated and harder to sustain. Those direct Western contacts with the republics disapproved of by Moscow would be perceived

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Figure 3
System Change: Loose Federation/Confederation
With Some Independent States



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would start to resemble that of Western governments. The Central Asian regions, on the other hand, would remain basically authoritarian and have poor human rights records. ~~(C-NEP)~~

The republics would have substantial autonomy, with the center playing the leading—though even here not exclusive—role in foreign, defense, fiscal/monetary, and communications/transportation policies. The presidency of the new union would have less scope and be a less powerful office than it is today. There would be a strong push toward a market economy, although the central and republic governments would continue

to run a large portion of major industry, and reforms would be implemented unevenly in the republics. Progress would be much more gradual and the social pain much greater than has been the case in Poland. ~~(C-NEP)~~

Russia's influence in the new union could become a source of tension. Its leadership, most likely under Yel'tsin, would have played the leading role in creating the new system giving greater power to the

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Indicators of "System Change"

- *Center/republics sign and begin implementation of union treaty and new constitution devolving significant power to republics.*
- *Republics assume control of their economic and political lives; undertake substantial steps toward market reform. (C NF)*

Or, alternatively:

- *Large-scale public protests, labor unrest, and republic pressure cause the central government to collapse.*
- *Reformers/republics give up hope of reaching negotiated settlement with the center and conclude bilateral and multilateral agreements reserving most powers to themselves and defining areas of the center's limited authority. (C NF)*

individual republics. Yet Russia would be an even more powerful primus inter pares than it is today because of Yel'tsin's prestige and because of the resources it would control. Its growing sense of national identity and the possible emergence of a "Russia first" attitude could also undermine the new union. Ukrainian nationalism could also lead this republic to go its own way with similar effect. (C NF)

A Slavic-Central Asian state would have most of the military potential that the USSR has today, although it probably would choose to field smaller and more Slavic armed forces. It would continue to be a nuclear superpower, but its conventional forces would be much reduced and their posture largely defensive. The market reforms that such a state would undertake, however, would over time (but not in the five-year time frame of this Estimate) give it a more reliable economic base for developing military technologies and modernizing the military, should its leadership and people decide on such a course. (C NF)

The biggest problem for the six republics that would form independent states would be economic because of their meager industrial and resource bases and their small populations. Most would move quickly toward market economies, but how well their economies functioned would also depend heavily on the degree to which they cooperated with the Slavic-Central Asian state, each other, and their other neighbors. The Baltic states would be parliamentary democracies; the other three—while democratic in form—probably would tend more toward authoritarian states. (C NF)

The internal growing pains that the Slavic-Central Asian state and the others experience would complicate relations among them. Demarcating the new borders alone would be enough to generate tensions. The most serious problems—which would entail some violence—would most likely be between Armenia and Azerbaijan, and between the new union, on the one hand, and Georgia and Moldova, on the other. (C NF)

Such problems among and inside the new regimes that emerged in "system change" could over the longer run become serious enough to cause such a regime to fail. Reestablishment of the old Communist order would not occur, but the military and security services might be able to resume control (as in the "regression" scenario) or chaos and wide-scale violence could ensue (as in the "fragmentation" scenario) due to the failure of political and economic reform. (C NF)

Implications for the West

Despite the uncertainties such tensions among the former components of the USSR would create for the West, this would be far and away the most favorable outcome for Western countries. The Slavic-Central Asian core state would be smaller, less militarily powerful, much more pluralistic, and almost certainly more desirous of close relations with the West than was the USSR. Especially in the period following its creation, it would seek extensive Western involvement in developing its political and, particularly, economic

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player on the world scene. It would seek admission to European economic and security structures, posing dilemmas for Western governments. East European states already seek membership in these institutions, and some would worry that the new Soviet Union's acceptance into these clubs would dilute the meaningfulness of their membership. On the other hand, East European fears of a resurgent, militaristic USSR or of massive instability there would be substantially reduced in such a scenario. ~~(C-NT)~~

The Slavic-Central Asian core state probably would seek a major expansion of arms control agreements with the West. It would have an economic interest in cutting its military, and—perceiving the United States as a vital source of assistance—probably would seek significant reductions in strategic arms. This state would not forgo nuclear weapons, since they would continue to be important to its security and superpower status, but it probably would be willing to make reciprocal, and perhaps even radical, cuts in numbers of weapons. ~~(C-NT)~~

The Allies probably would see less justification for maintaining NATO and a US troop presence on the Continent if the Soviet Union disintegrated as depicted in this scenario. The Europeans would almost certainly invite the new states to join CSCE. The Allies, however, would resist any efforts by these new states to join NATO. ~~(C-NT)~~

Regression

structures. This probably would give the West unprecedented opportunities to shape development of the new state, but it would also bring with it requests for far more substantial economic aid than Western countries would be willing to provide. The West would face very hard choices in apportioning limited economic assistance among the Slavic-Central Asian state, the other newly independent states, and the democracies of Eastern Europe. ~~(C-NT)~~

The Slavic-Central Asian state, while heavily focused during the time frame of this Estimate on creating a new system at home, would still be an important

This scenario assumes traditionalist forces seize control in order to break the back of the democratic reform movement and halt the republics' move toward sovereignty and independence. Although Gorbachev could lead such a move, it is more likely he would be compelled to go along or be forced from office. The security services and the military, who spearhead this course, use force on a large scale to reassert central control. Widespread arrests of leading opponents, including Yel'tsin, occur. The new leaders attempt to

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reinstute centralized control over the economy. Although this averts collapse of the command economy for awhile, it does little to halt the economy's continuing sharp decline. (C/NF)

Implications for the USSR

This scenario would involve a series of harsh measures that succeed in reestablishing a measure of central control. The use of force could produce political "stability" for a few years, given the organizational weakness of the democratic forces and the lack of unity among the republics bent on secession. This course might also appeal to a significant portion of the Slavic-Central Asian publics tired of political debate and seeking political order and economic stability. Such popular support would prove short-lived, however, if the new government failed to deliver. Eventually, renewed political opposition and civil disorder would probably develop. (C/NF)

The new leaders would find it difficult to gain popular legitimacy for their rule. The draconian step of reintroducing the command-administrative economic system, largely discarded under Gorbachev, would not be able to rebuild the center-republic economic ties disrupted by the independence movement. As workers saw their economic status continuing to deteriorate, they would become less reluctant to engage in passive and active resistance to the center's power. (C/NF)

The new government would also lack an ideological basis to justify its actions, since Marxism-Leninism has been totally discredited, along with the Communist Party. An appeal to Russian nationalism by the conservative leadership would be possible—and could take the form of a national salvation committee—but such a step would further antagonize the restive republics. It could provide the basis for an authoritarian regime in Russia, however, that follows a "Russia first" policy at the expense of the rest of the union. (C/NF)

The biggest problem for the leadership would be maintaining unionwide control. The use of force to hold the union together would almost certainly lead to open civil conflict within several republics, particularly those having their own paramilitary forces, such as Georgia and Armenia. Controlling such unrest

Indicators of "Regression"

- Gorbachev, or successors, use whatever force necessary to maintain the union.
- Traditionalists gain dominance, begin setting political and economic agenda.
- Regime censors media, suppresses individual freedoms; harasses/arrests opposition groups.
- Regime reasserts central control over the economy. (C/NF)

would severely tax security and military forces; prolonged conflict would threaten the internal cohesion and discipline of the troops, particularly if they had to be used against Slavic groups. (C/NF)

This scenario could unravel quickly if the center were unable to quash the democratic resistance, if Yel'tsin or another popular leader were able to escape the center's dragnet and rally popular resistance, or if the military proved unreliable. Even so, reform and republic leaders might not survive even a short-lived repression, leaving a political vacuum at the center and in many republics. Such widespread unrest would also exacerbate the ethnic, political, and generational splits within the armed forces and security services. (C/NF)

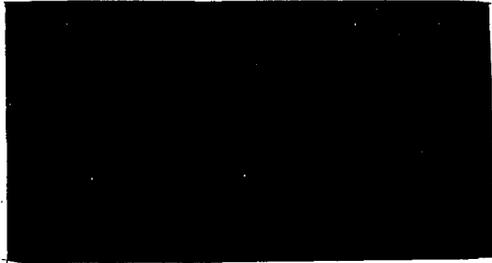
If repression failed, the result probably would be anarchy and a chaotic disintegration of the union; that is, the "fragmentation" scenario. In that event, most republics would break away from the center. This breakup of the union would most likely be accompanied by civil wars. (C/NF)

Implications for the West

This scenario, while less volatile than "fragmentation," would create conditions least responsive to Western influence. The immediate outcome would be a more combative posture toward the West, which the new leadership would see as opposed to its seizure of power and its harsh internal measures. Western criticism would fuel a "hunker down" attitude among the

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leadership, further straining relations. The regime's probable political, economic, and military policies would generate renewed concern in the West over the USSR's intentions and would frighten the Soviet Union's neighbors, particularly in Eastern Europe. Such a regime, however, probably would seek to avoid confrontation with the West because of the fragility of the situation within the USSR. (C-~~NR~~)

The hardline leadership would place arms control negotiations on the back burner, and its willingness to adhere to existing arms control agreements—particularly CFE—would be increasingly doubtful as political tensions with the West rose. There probably would be a greatly reduced willingness to cooperate with the West in reducing regional tensions, although for economic reasons the new leadership would be reluctant to be drawn into foreign adventures. Nevertheless, the regime would take an aggressive approach to arms sales to the Third World, complicating Western efforts at promoting regional security. (C-~~NR~~)

Such a regime would adopt a more assertive attitude toward the countries of Eastern Europe and might threaten to hold up any remaining troop withdrawals unless Germany and Poland acceded to Soviet security and economic demands. Given its weakened condition and preoccupation with maintaining internal control, however, a traditionalist regime would almost certainly remove these forces in the end rather than precipitate an East-West crisis. (C-~~NR~~)

Although more confrontational, the regime would be unable, due to the changed social environment and the weakened economy, to conduct an arms buildup

similar to the Brezhnev era, even though it might place greater priority on heavy and defense industry. It would assert its rights as a military power, but its main focus would be on the USSR's internal problems. (C-~~NR~~)

Fragmentation

This scenario assumes there is no effective central government. Power resides in the republics and, in some cases, even in localities. Republics, along with many of the ethnically based regions, secede en masse from the union. Ethnic and social tensions explode in many areas; the security services and military are unable to maintain order. The result is widespread anarchy and local civil wars made worse by the proliferation of paramilitary forces and the defection of units from the military. Attempts to establish ties among republics prove difficult due to differences in political and economic agendas and the ineffective control of most governments. Many regional and local governments quickly rise and fall. The collapse of the national command economy and its supporting infrastructure leads to local systems of exchange, largely based on barter. (C-~~NR~~)

Implications for the USSR

This scenario not only would spell the end of the USSR as a unitary state, it would also make it unlikely that the union could reconstitute itself as a federation, or even a confederation, during the time frame of this Estimate. The country's fragmentation into a number of individual political units, many overtly or potentially hostile toward one another, would increase the likelihood of prolonged civil wars, which would further sap the strength of already besieged local economies. The economic chaos would lead to severe food shortages or even famine in parts of the country. (C-~~NR~~)

The power vacuum in Moscow would heighten prospects for a military seizure of power and a succession of coups, as senior military commanders tried to find

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Figure 4
The Fragmentation of the Soviet Union
Into a Multitude of States



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together the rapidly collapsing union. Even if elements in the military and security services were inclined to intervene in an effort to rescue the union, they would not be able to ensure the loyalty of many of the individual units. Widespread defections and mutinies would make large-scale use of force to stabilize the situation impossible. There would be a very real danger that military and security force units would defect to the leadership of the republics, providing a ready pool of men and arms with which to

prosecute conflict against other republics or disaffected elements within the republics. Some of these forces could also pose a threat to the leadership of the now independent republics. ~~(S)~~

"Fragmentation" is not likely to last indefinitely. As with "system change," there would be no possibility of putting the old system back together again, but new

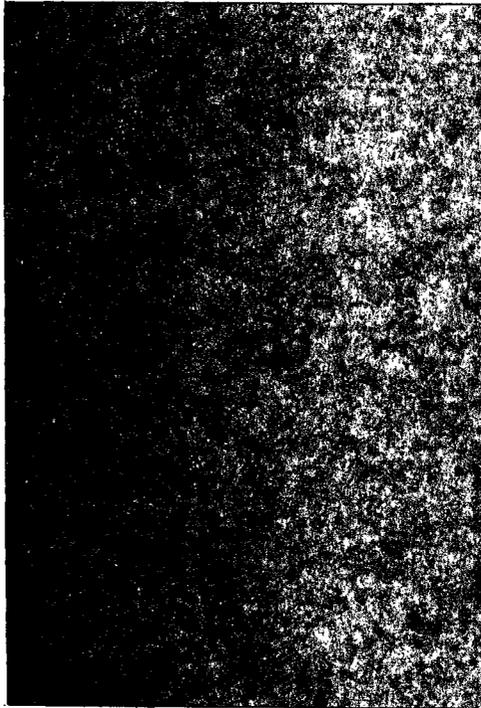
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Indicators of "Fragmentation"

- *Cooperation between center and most republics ceases; republics ignore center's directives, including laws on military conscription.*
 - *Central and republic governments increasingly unable to control violent protests over deteriorating economic and political conditions; but opposition unable to unite, coordinate actions.*
 - *Interrepublic ties dwindle sharply; republics make political, economic, and territorial demands on one another.*
 - *Command economy collapses; attempts by republics and localities to establish alternative economic systems fail; economic conditions deteriorate sharply.*
 - *Military discipline begins to unravel.*
 - *Ethnic and labor disturbances spread rapidly.*
- ~~(S-INT)~~



attempts at forging cooperation among some of the peoples of the former Soviet Union would be made. Russia would be the key. The establishment of strong and effective leadership in the Russian Republic could stabilize the political and economic situation in a relatively short period (perhaps several years) depending on the policies it adopted and its abilities to establish economic ties to other republics and countries. Such a development would also depend on the Russian leadership's ability to exercise control over its own disaffected ethnic groups, as well as its ability to gain command of what remains of the armed forces. An economically and politically viable Russia would exercise a strong influence on neighboring peoples still wrestling with the effects of the collapse of the USSR.

~~(S-INT)~~

Implications for the West

This scenario is potentially the most dangerous for the West because of the chaos and unpredictability of events. Although the USSR would disappear as a cohesive military power, the prospects of nuclear and other weapons of mass destruction falling into the hands of some republics, mutinous troops, or radical groups would pose a new set of risks. There would be a heightened risk of threatened or accidental use of such weapons inside—and much less likely, outside—the Soviet Union. There would also be a greater chance for nuclear materials and expertise finding their way to foreign states seeking to develop nuclear weapons.

~~(S-INT)~~

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Widespread civil conflict or war within and between republics would also pose major dangers for the West. Conflict within the former territory of the USSR would have the potential for spilling across borders, particularly in central and southern Europe and Southwest Asia. Western countries would have to weigh the merits of recognizing new governments in breakaway republics or in Russia itself. One or another of the contending factions would be likely to appeal to the West for economic and military assistance, if not outright security guarantees. (C-~~NF~~)

Beyond the dangers posed to the West by the internecine strife would be the very real challenge of dealing with the extreme economic hardship, including famine, likely to affect the bulk of the former USSR. Massive infusions of assistance and capital would almost certainly be required to alleviate suffering, but the lack of a central government, or perhaps even republic governments, capable of directing the inflow of economic aid—as well as ongoing violence—would undermine the effectiveness of any effort. The West would also be confronted with the problem of massive numbers of refugees fleeing the disorder, which could

destabilize countries bordering the USSR. Despite these problems, Western assistance probably would be critical to the ability of the various republics and regions to move beyond the difficulties associated with this scenario to more stable political and economic systems. (C-~~NF~~)

This scenario would also make any coherent Soviet foreign policy extremely unlikely. There would be no central authority in Moscow to conclude arms control negotiations, implement accords already reached, or to ensure the completion of troop withdrawals from Central Europe. Moreover, in a situation of anarchy and civil wars in the USSR, Soviet forces remaining in the region would not be a military threat but would present serious problems for their hosts should they refuse repatriation; widespread disorder among these troops would be likely. (C-~~NF~~)

**7. NIE 11-18.3-91, November 1991, *Civil Disorder in the Former USSR:
Can It Be Managed This Winter?***



Director of
Central
Intelligence

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Civil Disorder in the Former USSR: Can It Be Managed This Winter?

National Intelligence Estimate

*This National Intelligence Estimate represents
the views of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*

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NIE 11-18.3-91
November 1991

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~~NOFORN NOCONTRACT~~

NIE 11-18.3-91

Civil Disorder in the Former USSR: Can It Be Managed This Winter? (C.N.F.)

*Information available as of 29 November 1991 was used
in the preparation of this Estimate.*

*The following intelligence organizations participated
in the preparation of this Estimate:*

The Central Intelligence Agency
The Defense Intelligence Agency
The National Security Agency
The Assistant Secretary for Intelligence and Research,
Department of State
The Office of Intelligence Support,
Department of the Treasury
The Director for Intelligence,
Department of Energy

also participating:

The Deputy Chief of Staff for Intelligence,
Department of the Army
The Director of Naval Intelligence,
Department of the Navy
The Assistant Chief of Staff, Intelligence,
Department of the Air Force
The Director of Intelligence,
Headquarters, Marine Corps

*This Estimate was approved for publication by the
National Foreign Intelligence Board.*

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November 1991

7. (Continued)

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NOFORN-NOCONTRACT

This Estimate is one of a series to be published in the coming weeks on various crises facing the former USSR.

The multiplicity of problems facing the new governments and their limited ability to cope with them make it likely that one or more of these problems will take on "worst case" proportions. (C NF)

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~~NOFORN/NOCONTRACT~~

Key Judgments

Civil Disorder in the Former USSR: Can It Be Managed This Winter? (~~CNF~~)

- Severe economic conditions, the fragmentation of the armed forces, and ongoing interethnic conflict this winter will combine to produce the most significant civil disorder in the former USSR since the Bolsheviks consolidated power. (~~CNF~~)
- Directly targeted and administered Western assistance would improve Russia's chances of maintaining stability through the winter, but the odds of preventing a social explosion that would overwhelm or topple the government depend most critically on Yel'tsin's ability to manage painful reforms effectively. (~~CNF~~)
- Yel'tsin's performance thus far is mildly encouraging: he apparently will not restrict credit and spending so rapidly as to result immediately in massive unemployment and bankruptcies. But his mishandling of price liberalization—causing panic buying by announcing it in advance—demonstrates the potential for further mismanagement that could lead to the collapse of his government and, with it, prospects for reform. (~~CNF~~)
- Because of less severe food shortages, Ukraine's prospects of remaining stable through the winter are good as long as it continues to avoid significant friction with Russia. The impact of civil disorder in other republics will vary, but all would eventually be seriously affected by instability in Russia. (~~CNF~~)
- All republics will resort to some authoritarian measures to cope with unrest, but Russia and Ukraine at least will avoid a heavy reliance on coercive force that would generate intense opposition and hasten political destabilization. (~~CNF~~)

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Figure 1
Potential Areas of Unrest
in the Former Soviet Union



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Discussion

During the winter months, the likelihood that civil disorder will be sufficient to destabilize governments at all levels will be higher than at any time since the 1920s. Mass demonstrations, strikes, violent protests, and even acts of terrorism are probable, given the severe problems that each republic, especially Russia, must grapple with over the next four to five months.

~~(C-INT)~~

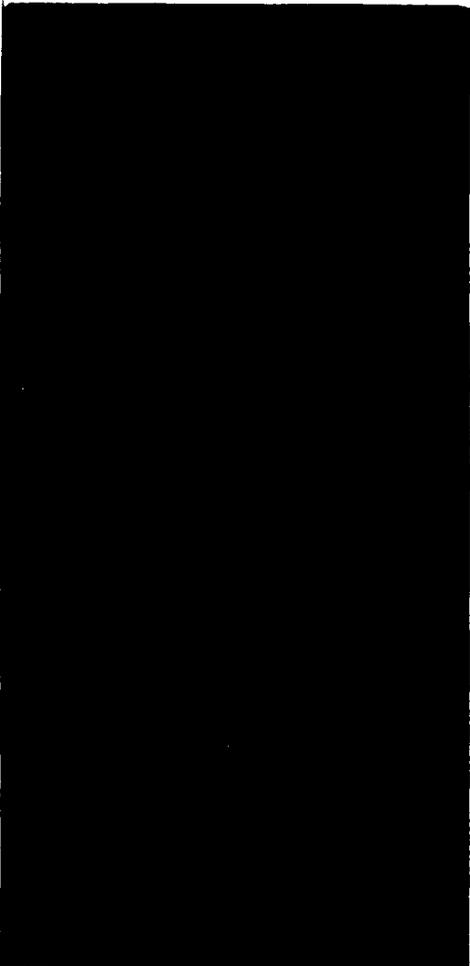
Likely Flashpoints

Where?

Over the next few months, differing degrees of unrest will occur in virtually every republic of the former USSR. Of these, civil disorder in Russia represents the greatest danger to stability in the region by virtue of Russia's size, influence, and resources. ~~(C-INT)~~

Those areas of Russia most likely to experience serious unrest include the two largest cities, Moscow and St. Petersburg; industrial cities of the Urals, such as Ekaterinburg (formerly Sverdlovsk), Perm', and Chelyabinsk; and rebellious regions, such as the Tatar, Checheno-Ingush, and Yakut Autonomous Republics. ~~(C-INT)~~

Yel'tsin's performance in managing the economic reform process will be critical. Liberalizing prices, cutting defense expenditures, and shutting down loss-making firms are all essential to restoring stability to the economy and laying the groundwork for its recovery. Moving too rapidly to curtail government spending and commercial credit, however, could cause bankruptcies to skyrocket and unemployment to soar by winter's end. Yel'tsin, therefore, has strong incentives to avoid so hasty an approach. He must also avoid the kinds of counterproductive actions and



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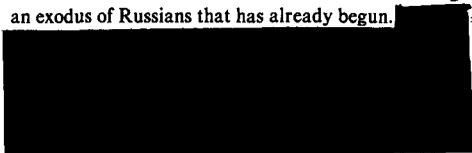
statements he has made occasionally in the past. By announcing in advance that price controls would be removed, for example, Yel'tsin sparked panic buying that emptied store shelves and increased social tension. ~~(C-NT)~~

Lingering "independence euphoria" and less severe food shortages will give Ukraine a better chance than Russia of remaining stable through the winter months. Serious energy shortages, however, will probably cause some social unrest. In addition, tensions between ethnic Ukrainians and minority Russians are likely to increase to some degree as the Ukrainian government acts to consolidate independence. Inter-ethnic frictions would intensify significantly if Kiev—contrary to its current policies—tried to impose discriminatory language and citizenship laws on Russian-populated areas, or if regions with large Russian populations attempt to assert their autonomy. Areas that face the greatest potential of unrest include Crimea, where 67 percent of the population is Russian, and the Donbass mining region, where difficult economic conditions will aggravate relations between Ukrainians and the large minority of Russians living there. ~~(C-NT)~~

Perceived mistreatment of ethnic Russians in Ukraine would worsen relations between the governments of Ukraine and Russia. Such a development might rally a majority of each republic's population to support its government, but, over time, any breakdown in bilateral cooperation would have an even more destabilizing economic and social impact on both republics. ~~(C-NT)~~

Outside of Russia and Ukraine, the extent of civil disorder will vary, depending on economic conditions, ethnic rivalries, and political traditions. Food shortages and unemployment will generate some unrest in parts of Central Asia, although authoritarian governments and the relative lack of organized political opposition or economic pressure groups are likely to inhibit protest efforts, at least in Kazakhstan and Kyrgyzstan. ~~(C-NT)~~

Interethnic conflict is a more likely source of destabilizing civil disorder in Central Asia, especially if sizable and relatively privileged ethnic Russian populations become the targets of discrimination, protest,

or even violence by resentful Central Asians. Such actions would accelerate and make more destabilizing an exodus of Russians that has already begun. 

Ethnic tensions elsewhere will also trigger civil disorders this winter. The Transcaucasus region is already on the verge of civil war. The simmering conflicts between the government of Moldova and Russian and Turkic minorities in the breakaway Dnestr and Gagauz regions also are likely to flare up. ~~(C-NT)~~

Who?

Besides disaffected ethnic minorities, civil disorder is most likely to involve the groups most affected by economic hardships. ~~(C-NT)~~

Military Personnel. While central control of the military remains largely intact, servicemen are growing increasingly intolerant of abysmal housing conditions, food shortages, and insufficient incomes. Some individual officers, groups of soldiers, or even regimental units already have threatened to disobey central command structures. They could look for governmental allies at the republic or local level, in some cases begin foraging for food and supplies, and possibly become powers unto themselves. ~~(C-NT)~~

Ferment in the military is already creating extraordinary situations. On 15 November, for example, the first "strike committee" in the armed forces was established in Ukraine, threatening protest actions in support of economic demands. ~~(C-NT)~~

Perhaps the greatest potential for unrest will be among military personnel scheduled to be withdrawn from Eastern Europe and the Baltic states, where conditions are relatively comfortable. *Representatives of officers' assemblies of military units stationed in the Baltic states have already threatened not to leave until better conditions are created for them at the new places they will be stationed.* ~~(C-NT)~~

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Workers. Increased labor unrest is certain. Striking workers in the energy and transportation sectors would have the greatest impact. Coal miners demonstrated their power last spring when they staged strikes that forced major economic concessions from the central government. If anything, worker disgruntlement is even more widespread now:

- Labor organizations, many of which are opposed to marketizing reforms, staged a “week of united trade union actions” this fall aimed at pressing Russian Republic authorities to increase wages and improve living conditions.
- Medical workers held demonstrations and “warning strikes” throughout the Russian Republic on 13 November to protest miserably low wages, unbearable working conditions, and shortages of critical medicines.
- A Moscow students’ trade union committee recently appealed to Yel’tsin to increase funding for higher education, warning that the “slightest delay” could be “the catalyst that sparks off a social explosion among students.” ~~(S-INT)~~

The Unemployed. As unemployment grows substantially, it will hit industries across the board. At least half of those thrown out of work will probably come from defense plants in Russia and Ukraine. Other heavy industries, such as ferrous metals, will also be hit. Republic governments probably will be unable to cope with an avalanche of demands for help from unemployed workers. Under such circumstances, protest actions are inevitable. Although the unemployed lack organization at present, they are a likely target of mobilization by organized political or economic groups. ~~(S-INT)~~

Consumers. Consumers are long accustomed to scarce and shoddy goods, but food and fuel shortages combined with skyrocketing prices of many essential goods could finally push them over the edge. Like the unemployed, consumers lack organization. Moreover, those who will suffer the most economic pain—pensioners, the disabled, and children—are least likely to engage in direct protest action. ~~(S-INT)~~



Рис. Н. КИНЧАРОВА.

Figure 2. Cartoon published in *Izvestiya* depicts man with sign: “Hunger strike against starvation.” He is leaning against the door of a produce store with a sign affixed that says “no goods.” (U)

Nevertheless, spontaneous protests, riots, and violence are probable in shopping places as tempers reach the boiling point. For example, police were recently called in to restore order at one St. Petersburg store when customers trying to buy low-priced eggs went on a rampage after finding that the shelves had been emptied. Many such frustrated consumers will join mass rallies and demonstrations organized by other protesting groups. Adept handling by the authorities will be critical in determining whether such protests remain just a letting-off of steam or become truly destabilizing. ~~(S-INT)~~

Impact on Stability

No one knows whether the Yel’tsin government can survive the winter. We believe that there is some possibility that it will be overthrown or simply lose its authority, due mainly to government mismanagement of the economic reform process. ~~(S-INT)~~

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On balance, however, Yel'tsin's statements and actions give grounds for modest optimism that the Russian government will not be destabilized. Faced with the prospect of growing unrest, we believe Yel'tsin will take steps to defuse or inhibit it:

- He has already boosted the wages of state-funded workers in an effort to ease the pain of the transition to a market economy. Although he will proceed with the liberalization of prices on most commodities, he probably will not curtail credit and spending so rapidly as to cause widespread bankruptcies and massive unemployment in early 1992. Such steps might preserve short-term stability at the expense of long-term economic health, however.
- Yel'tsin is willing to curb democratic practices in order to maintain stability. He will most likely make selective use of executive rule to deal with local unrest. He is less likely to adopt more sweeping strong-arm measures in an effort to buy time to administer harsh economic medicine. *As the recent "state of emergency" debacle in Checheno-Ingushetiya illustrated, Yel'tsin would encounter serious difficulties in carrying out emergency decrees.* Moreover, it would alienate his most important political constituencies and jeopardize his political position. ~~(C/NF)~~

The reaction of the military to requests from civilian authorities to suppress civil disorder in the Russian Republic will depend greatly on the circumstances of each case. On balance, however, we have serious doubts that Russian-dominated military forces would be reliable instruments in using deadly force against fellow Russians. ~~(C/NF)~~

Besides economic factors, stability in Ukraine depends in large measure on the zeal with which the government moves to affirm its independence. Ukrainian government policies probably will strain relations with minority Russians and further the disintegration of the Soviet armed forces. Military units and officers stationed in Ukraine will face increasing pressure to decide whether their loyalties extend to Moscow or to Kiev. Combined with deteriorating socioeconomic conditions, such pressures will almost certainly deepen turmoil within the military and increase the danger that renegade units will appear. ~~(C/NF)~~

Outside of Russia and Ukraine, the prospects for destabilization vary:

- Byelorussia's ex-Communist leadership has at least a 50-percent chance of surviving the winter, despite deteriorating economic conditions that will probably produce widespread unrest. Over time, it will be undercut by radical economic reforms in Russia, and labor unrest similar to that which hit the republic last April would follow.
- Georgian President Gamsakhurdia faces intense political opposition, as well as resistance to Georgian rule in South Ossetia and the Abkhaz Autonomous Republic. But his continued popular support—he was elected overwhelming by direct popular vote earlier this year—and his dictatorial methods probably will keep him in power, at least over the next few months.
- The bloody dispute between Armenians and Azeris over the status of Nagorno-Karabakh already is threatening to escalate into a civil war. That outcome would be ensured if the USSR Interior Ministry Troops are removed, a likely prospect if efforts to form a political union languish.
- Central Asian republics—especially Kazakhstan and, to some extent, Kyrgyzstan—probably will be relatively quiet this winter. Tajikistan and Uzbekistan are more likely to experience instability in the near term. ~~(C/NF)~~

All republics would eventually be affected by the destabilization of Russia. Most republic governments would seek to protect themselves by turning inward and imposing authoritarian rule. In most cases, these responses would fail to stem internal unrest. ~~(C/NF)~~

Directly distributed Western assistance this winter, especially emergency food and medical aid targeted to major cities, would probably help increase the prospects for stability. Such aid, delivered by airlift and administered by Westerners on the ground, would have the greatest chance of circumventing distributional roadblocks—the most likely cause of severe food shortages. Aid programs that rely on internal

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A Better Winter?

There is some chance that conditions will not be as bad as this Estimate depicts and that civil disorder will not be as widespread. Several factors could inhibit massive political protests:

- *A reservoir of support for Yel'tsin exists that transcends the immediate performance of his government. This could inhibit civil unrest—at least among ethnic Russians within Russia—so long as he is seen as playing straight with them.*
- *Russians, as well as other ethnic groups, have a long history of enduring conditions almost unthinkable in the West. While there is a breaking point, our analysis may err in assuming that the population is closer to it than it actually is.*
- *Winter conditions in most of the former USSR are hardly ideal for massive outdoor rallies and demonstrations. (C NF)*

In addition, the black, gray, and new legal markets may be more effective than we expect in taking up the slack:

- *We are uncertain how much has been diverted into these channels as well as how much individual citizens are hoarding; the amount undoubtedly is more than official statistics suggest.*
- *As prices are liberalized, more goods could become available throughout the country than we now anticipate.*
- *We may not account sufficiently for the deal making—barter, theft, selling of services, and so forth—that citizens have historically used to survive amid shortages. (C NF)*

distribution systems will have little immediate impact on shortages and run the risk of increasing the level of public unrest, as news would spread of clogged storage and transportation facilities, spoilage, black-market diversions, and theft. (C NF)

Going From Bad to Worse

Several developments are possible that would increase the chances of destabilization of governments beyond the level already discussed, especially if they occurred in combination. While some are more likely than others, we believe that none is probable in the next four to five months:

- Yel'tsin's death, especially by assassination, would probably throw the Russian government into chaos, strengthen centrifugal forces within the Russian Republic, reduce the prospects for successful inter-republic cooperation, and lower the odds that economic reform and democratization—long-term guarantors of stability—would be successfully implemented.
- Russian economic "shock therapy" could be so poorly conceived and unevenly implemented that it produces hyperinflation and unemployment far higher than we now anticipate and seriously aggravates interrepublic trade problems.
- An attempt by individual republics, especially Ukraine, to seize control over military assets on its territory would accelerate the disintegration of the armed forces and create the potential for a dangerous conflict.
- A large number of refugees crossing republic borders to escape interethnic strife or economic conditions would place new demands on the already insufficient resources of republic governments. (C NF)

Widespread civil disorder in the next few months would deal a deathblow to current efforts to cobble together interrepublic institutions. At best, republic governments will be too preoccupied with their internal difficulties to devote time or energy to interrepublic negotiations. At worst, economic stringencies and ethnic feuding will bring to power xenophobic nationalist groups advocating "go-it-alone" policies. (C NF)

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